

Michael L. Chadwick

**Global Governance
in the Twenty-First Century**

**An Overview of the Elite Forces Controlling
the World Economy**

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World Economy**

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Written and Edited

By

Michael L. Chadwick

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A Question of Freedom and Slavery

"I consider it as nothing less than a question of freedom or slavery.... Should I keep back my opinions at such a time, through fear of giving offense, I should consider myself as guilty of treason towards my country, and of an act of disloyalty towards the majesty of heaven, which I revere above all earthly kings."

Patrick Henry
March 23, 1775

A Deliberate & Systematical Plan of Slavery

"Single acts of tyranny may be ascribed to the accidental opinion of a day; but a series of oppressions, begun at a distinguished period, and pursued unalterably through every change of ministers, too plainly prove a deliberate, systematical plan of reducing us to slavery."

Thomas Jefferson
August, 1774

Dedication

This trilogy is respectively dedicated to James Madison, Thomas Jefferson, Andrew Jackson and Abraham Lincoln. Their fierce devotion to the principles of freedom and liberty was unequivocal, relentless and exemplary. Their dedication to the principles of a constitutional monetary system was unparalleled the history of the Republic. Their unwavering courage and steadfast opposition to the elite financial oligarchies in their respective days has earned them the adoration and praise of true patriots forever. The last of these noble and great men gave the last full measure of his devotion to America and its free institutions – even his life in the ongoing war between the forces of freedom and tyranny.

This trilogy is also dedicated to the courageous men and women of the 19th and 20th centuries who opposed the elite financial oligarchies in their day.

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8. Robert Jackson – Prospects for Europe's Parliament
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11. Carl H. Pegg – The European Idea On Trade Between the Wars

12. James Carter – The United States and Europe: The Future President's View
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6. Michael C. Jensen – The Lazard Freres Style: Secretive and Rich – Its Power Is Felt
7. *Business Week* – The Inside Story of Lazard Freres' Merger and Acquisition Star: The Remarkable Felix G. Rohatyn
8. Wright Patman – Other People's Money
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20. Annual Report – The Global Reach of J. P. Morgan & Co.
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22. J. J. Polak – Thoughts on an International Monetary Fund Based Fully on the SDR

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8. *The Yorkshire Post* – Tribute of Foreign Affairs

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9. Joseph Kraft – School for Statesmen
10. Richard H. Rovere – Notes on the Establishment in America
11. Arnold Beichman – Council on Foreign Relations
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14. Carroll Quigley – Cecil Rhodes' Secret Society
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16. J. Anthony Lukas – The Council on Foreign Relations
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2. A. Jerome Clifford – The Ownership of the Federal Reserve Bank Stock as an Issue of Independence
3. A. Jerome Clifford – The Case for Congressional Control of the Federal Reserve
4. A. Jerome Clifford – Congressional Means for Control of the Federal Reserve System
5. M. H. DeKock – Central Banking
6. M. H. DeKock – Constitution and Administration of Central Banks
7. David A. Martin – Metallism, Small Notes, and Jackson's War with the Bank of the U. S.
8. Robert Craig West – The Influence of Paul Warburg
9. Donald F. Kettl – The Struggle for Independence of the Fed from the U.S. Treasury

Appendix 57 International Organizations Memberships in the IMF, IBRD and WTO

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2. World Trade Organization Observer Governments
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Appendix 59 OECD – From Marshall Plan to Global Interdependence

Appendix 60 Alexander Hamilton's Report on Manufacturers

Appendix 61 Bank of the United States: A Critical Review

1. Thomas Jefferson – Opinion on the Constitutionality of the Bill for Establishing a National Bank

2. James Madison – Notes on Banks

3. Andrew Jackson – Veto Message

Appendix 62 Governing Documents of America

1. The Declaration of Independence

2. U. S. Constitution

3. Bill of Rights and Amendments to the Constitution

4. George Washington's Farewell Address

5. Monroe Doctrine

Appendix 63 Treaty Law Manual

Appendix 64 Lawrence B. Krause – Sequel to Bretton Woods: A Proposal to Reform the World Monetary System

Appendix 65 Miriam Camps – Collective Management

Appendix 66 Miriam Camps – The Management of Interdependence: A Preliminary Review

Appendix 67 Lincoln P. Bloomfield and Irrangi C. Bloomfield – The U. S. Interdependence and World Order

Appendix 68 Miriam Camps – First World Relationships: The Role of the OECD

Appendix 69 Atlantic Council – Beyond Diplomacy: Decision-Making in an Interdependent World

Appendix 70 Richard A. Falk – Future World

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Appendix 71 Marina v. N. Whitman – International Interdependence and the U. S. Economy

Appendix 72 Marina v. N. Whitman – Coordination and Management of the International Economy: A Search for Organizing Principles

Appendix 73 Atlantic Council of U. S. – Harmonizing Economic Policy: Summit Meetings and Collective Leadership

Appendix 74 Lester R. Brown – The Interdependence of Nations

Only One Earth

Economic Interdependence

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Appendix 75 American Tariff League – A Brief Tariff History of the United States

Appendix 76 Bill Montague – U. S. Economy Hangs on Japan

Appendix 77 Akio Morita – Toward a New World Economic Order

Appendix 78 Joseph S. Nye, Jr. – Multinational Corporations in World Politics

Appendix 79 Recommended Reading List

Appendix 80 Committee on the Judiciary, U. S. House of Representatives – Index to the U. S. Constitution and Amendments

Appendix 81 Speeches in Favor of Global Governance

1. Woodrow Wilson – Declaration of War

2. Colonel Edward M. House – The United States, the League of Nations and World Peace
3. Carter Glass – The Integrity of a U. S. President
4. Charles G. Fenwick – The Future of the League of Nations
5. Franklin D. Roosevelt – Reorganization of Federal Government Administration
6. Franklin D. Roosevelt – Reorganization of Federal Judiciary
7. Homer S. Cummings – Reasons for President's Plan and the Remedy
8. Franklin D. Roosevelt – The Constitution: Lawyer's Contract?
9. Nicholas Murray Butler – The United States Must Lead
10. Franklin D. Roosevelt – The New Deal Must Continue
11. Nicholas Murray Butler – Toward a Federal World
12. Franklin D. Roosevelt – This Nation Will Remain Neutral
13. P. J. Noel Baker – Toward a New World Order
14. Franklin D. Roosevelt – Declaration of War
15. Franklin D. Roosevelt – The State of the Union
16. Nicholas Murray Butler – There Can Be No Isolation
17. Dorothy Thompson – The Future World Order
18. Cordell Hull – The Seriousness of the War
19. Amos J. Peaslee – A Permanent United Nations
20. A. A. Berle, Jr. – The Realist Base of American Foreign Policy
21. Harold E. Stassen – World Affairs
22. Amos J. Peaslee – Future Fundamentals
23. Sumner Wells – Safeguarding Our Interests
24. Franklin D. Roosevelt – Another Link in the Chain
25. Cordell Hull – Moscow Pact a Basis for World Organization

26. Frank G. Tyrrell – Sovereignty Not Impaired by World Federation
27. F. H. LaGuardia – Interpreting the Atlantic Charter
28. Frederick R. Coudert – The Role of the Lawyer in Future World Organization
29. Amos J. Peaslee – An International Judicial System
30. Dean Acheson – The Interest of the American Businessman in International Trade
31. Charles W. Tobey – Plan for World Cooperation and World Peace
32. Amos J. Peaslee – How Much International Government Do We Want?
33. Franklin D. Roosevelt – The Bretton Woods Proposals
34. Franklin D. Roosevelt – The Crimea Conference
35. Franklin D. Roosevelt – Good Start Toward Lasting Peace
36. Edward R. Stettinius – Invitations to United Nations Conference
37. Harold E. Stassen – San Francisco – The Golden Gate to Peace
38. Frank G. Tyrrell – International Police Power
39. Frederick R. Coudert – Force, Justice and Law
40. Philip C. Nash – Spring Leaves on Dumbarton Oaks
41. Herbert Hoover – The San Francisco Conference and Peace
42. Tom Connally – United Nations Charter
43. Arthur H. Vandenberg – United Nations Charter
44. Harry S. Truman – Objectives of the Charter
45. Edward R. Stenninius – The United Nations Charter
46. James F. Byrnes – Neighboring Nations in One World
47. James F. Byrnes – Common Interest For Outweighing Conflicting Interests
48. C. Wayland Brooks – Proposed Loan to Great Britain
49. Fred M. Vinson – British Loan Agreement

50. Harry S. Truman – A Year of Decision
51. James F. Byrnes – International Trade Organization
52. Harold W. Dodds – Woodrow Wilson
53. J. William Fulbright – The Outlook for Peace
54. Harry S. Truman – UNO Charter Based on Religious Principle
55. Trygve Lie – International Solidarity and Collaboration
56. Harry S. Truman – United States Will Support the United Nations
57. William E. Knox – The Foreign Trade Myth
58. William Benton – My World – My Human Race
59. Arthur H. Vandenberg – Our Mutual Problem with the World
60. Harry S. Truman – Foreign Economic Policy
61. Warren R. Austin – United States Aid to Greece and Turkey
62. Harry S. Truman – World Unity
63. Harry S. Truman – Permanent World Peace
64. Harold E. Stassen – Marshall Plan, Europe's Only Alternative to Communism
65. Jaime Torres Bodet – Consolidate the United Nations
66. James Forrestal – Strength Alone Averts War
67. Thomas E. Dewey – Aid Program Vital
68. Bernard M. Baruch – Woodrow Wilson's Claim to Greatness
69. George C. Marshall – European Recovery and Peace Treaties
70. Arthur H. Vandenberg – Emergency Aid for Europe
71. Walter Lippmann – Philosophy and United States Foreign Policy
72. Harry S. Truman – Marshall Plan Proposals
73. Harold E. Stassen – United Nations Charter Revision

74. George C. Marshall – The European Recovery Program
75. Clement Attlee – Europe Must Have a Planned Economy
76. Eric Johnston – Partners for Peace
77. William L. Clayton – The Proposed International Trade Organization
78. Wesley A. Sturges – The Quest for World Law and Order
79. Winthrop G. Brown – Reciprocal Trade Agreements
80. George C. Marshall – Strengthen the United Nations
81. Winston Churchill – The Voice of Europe
82. Elvin H. Killheffer – International Trade Organization
83. Trygve Lie – A United Nations Guard Force
84. Ernest Bevin – United Nations' Problems
85. George F. Kennan – United States and the United Nations
86. Alben W. Barkley – Politics and Trade
87. John Moseley – Training for Citizenship in a World That Is To Be
88. Dean Acheson – The Atlantic Pact
89. Herbert V. Evatt – Worldwide Security Found Only in Worldwide Organizations
90. Omar N. Bradley – Military Security Significance of Atlantic Pact
91. Henry Cabot Lodge, Jr. – Military Aid to Western Europe
92. Harry S. Truman – National Health Insurance Program
93. Dean Acheson – Economic Policy and the ITO Charter
94. Harry S. Truman – International Economic Policy
95. Crawford H. Greenewalt – Bigness and Monopoly
96. Walter Cenerazzo – Practical Internationalism
97. Winthrop G. Brown – Why Private Business Should Support the ITO

98. Millard E. Tydings – World Disarmament
99. Alberto Lleras – The Organization of American States
100. Herbert Hoover – World Peace and the United States
101. Paul H. Douglas – The Welfare State
102. Omar N. Bradley – A New Power Is Born
103. Dean Acheson – Soviet Barriers to Peace
104. Thomas E. Dewey – Enlarge North Atlantic Treaty
105. Ralph J. Bunche – Prospects for Peace
106. Anthony Eden – The Interdependence of Nations
107. Lord Halifax – Unbreakable Association of United States and Commonwealth
108. Robert E. Wilson – Is Big Business Bad? – Fact v. Fiction
109. Harry S. Truman – Appeal for Foreign Aid
110. Walter Hallstein – The Schuman Plan and the Integration of Europe
111. James I. Doolittle – The Electoral College
112. Paul A. Dever – The Record of the Last Twenty Years
113. Dean Acheson – United Nations Must Face the Issues
114. Karl Brandt – The Unification of Europe
115. Ole Bjorn Kraft – The Development of the Atlantic Community
116. Winthrop W. Aldrich – The Basis for a New Foreign Economic Policy
117. Richard Glenn Gettell – Nudging the Inevitable
118. John Foster Dulles – United Nations Charter Needs Revision
119. Henry Ford, II – The Free World Can't Trade on a One-Way Street
120. Henrik Kauffmann – The United Nations and Your and Me
121. Henry Ford – II – United Nations Not a Superstate

122. H. Alexander Smith – Treaty Amendment Not Necessary
123. Stuart Chevalier – Goals of the United Nations
124. Charles P. Taft – Trade Agreements Should Be Extended
125. Allan Sproul – Reflections of a Central Banker
126. Robert N. Wilkin – The United Nations – 10 Years Old
127. Albert C. Wedemeyer – World War II Strategy
128. James P. Warburg – Foreign Aid and United States Policy
129. Mark J. Fitzgerald – The International Labor Organization
130. Allen W. Dulles – Woodrow Wilson
131. John J. Sparkman – Foreign Aid Spending
132. Carlos Sanz De Santa Maria – A United Future for the Americas
133. Robert Delson – Internationalization of Foreign Aid
134. David Rockefeller – Gold, the Dollar, and the Free World
135. Pedro G. Beltram – A Family of Nations
136. Albert I. Nickerson – The Role of International Oil Companies
137. M. Ann Joachim – The World Court
138. Geroge Champion – Foreign Aid
139. H. R. H. Prince Bernhard – The Developing Nations of the World
140. David Rockefeller – New Trends in the Financial Markets
141. Lynn A. Townsend – A Common Market for North America
142. Harlan Cleveland – The Political Year of the Quiet Sun
143. Craig Raupe – The Success of Foreign Aid
144. Robert T. Oliver – Education in the Year 2,000 A.D.
145. Edward Lamb – The United Community of North America

146. George W. Ball – Cosmocorp: the Importance of Being Stateless
147. David Rockefeller – International Financial Challenges
148. Robert S. McNamara – Foreign Aid
149. Philip H. Trezise – Multinational Corporation
150. William S. Gaud – Overseas Private Investment in Today's World
151. Donald C. Platten – A New Monetary System for the 1980s
152. Athur F. Burns – International Monetary Reform
153. Irving S. Shapiro – One-World Economics
154. Carl H. Madden – The Multinational Corporation
155. Walter B. Wriston – The World Corporation
156. C. M. van Vlierden – Prospectives on the Changing World Business Environment
157. Henry A. Kissinger – The Challenge of Interdependence
158. Weldon B. Gibson – A New International Order
159. A. W. Clausen – Multinational Corporations – Potent Change Agents in the World
160. George W. Ball – Capital Formation in a One-World Economy
161. David Rockefeller – World Economic Trends and U. S.-Soviet Trade
162. A. W. Clausen – The Transnational Citizen – A Broadening Perspective
163. David Rockefeller – America's Future
164. Andrew R. Cecil – Enlightened Capitalism
165. Lawrence B. Krause – The Pacific Economy in an Interdependent World
166. G. William Miller – The International Financial Institutions
167. Otto Graflambsdorff – Trade Policy Challenges of Today
168. Robert E. Kirby – On to the 21st Century

169. Arthur Burck – Banking Will Be Dominated by a Handful of Giants
170. Harlan Cleveland – The Future of International Governance
171. John C. Whitehead – Towards a Stronger International Economy
172. Takashi Uyeno – Japan's Role in the Changing World Order
173. Carl Spielvogel – The Americas
174. Roger B. Porter – United States Investment Policy
175. Boris D. Pankin – The Dangers of Nationalism
176. Felix G. Rohatyn – The U. S. Must Remain the Preeminent Superpower in the World
177. C. G. Kelly Holthers – Potential Banking Opportunities
178. Joseph L. Brand – The New World Order
179. Stephen D. Harlan – Becoming a Global Thinker
180. Gerald M. Levin – Publishing in the Global Village
181. Robert F. Keeley – Glonat
182. Michel Camdessus – The International Monetary Fund
183. Edwin J. Feulner – A New Conservative Internationalist Foreign Policy

Appendix E

Appendix 82 Speeches Opposed to Global Governance

1. Senator Henry Cabot Lodge – The Treaty-Making Powers of the Senate
2. Albert A. Doub – Election of United States Senators
3. J. Reuben Clark, Jr. – Slavery Is Banned in America
4. Congressman Charles A. Lindbergh – The Federal Reserve Act
5. Congressman Towner – Wall Street Control of the Federal Reserve System
6. Congressman Stephens – The Stature of the Money Power

7. Senator William E. Borah – The Establishment of a Central Bank in America
8. Congressman Charles A. Lindbergh – The Federal Reserve System Is a Gift to the Money Trust
9. Congressman Bradegee – The Crisis in Constitutionalism
10. Senator Henry Cabot Lodge – The League of Nations: Abandonment of the Principles of George Washington
11. J. Reuben Clark, Jr. – A Government of Limited Powers
12. J. Reuben Clark, Jr. – The Principles of the U. S. Constitution
13. J. Reuben Clark, Jr. – The Matchless Wisdom of Abraham Lincoln
14. Congressman Louis T. McFadden – The Federal Reserve System and the Bank for International Settlements
15. Congressman Louis T. McFadden – Bank for International Settlements
16. Congressman Louis T. McFadden – International Finance
17. Congressman Louis T. McFadden – Basis of Controls of Economic Conditions
18. Congressman Louis T. McFadden – International Politics and Finance As They Affect the Federal Reserve System
19. Congressman Louis T. McFadden – Why Not an American Policy
20. Congressman Louis T. McFadden – America's Interest in the Bank for International Settlements
21. Congressman Louis T. McFadden – Financial Foreign Entanglements
22. Congressman Louis T. McFadden – Present National and International Banking Situation
23. Congressman Louis T. McFadden – War Debts and Reparations, I
24. Congressman Louis T. McFadden – War Debts and Reparations II
25. Congressman Louis T. McFadden – War Debts and Reparations III
26. Congressman Louis T. McFadden – War Debts and Reparations IV
27. Congressman Louis T. McFadden – War Debts and Reparations V

28. Congressman Louis T. McFadden – Reparations, Bonds and Foreign Securities
29. Congressman Louis T. McFadden – The Treacherous and Disloyal Conduct of the Federal Reserve Board and the Federal Reserve Banks
30. Congressman Louis T. McFadden – We Will fight It Out Until Every Dollar Stolen from the American People Is Repaid with Compound Interest to the United States
31. Congressman Louis T. McFadden – Resolution to Impeach the Federal Reserve Board
32. Congressman Louis T. McFadden – Taxes
33. Congressman Louis T. McFadden – Financial Interest Should Not Dictate Policy of the United States
34. Congressman Louis T. McFadden – Franklin D. Roosevelt, Apostle of Irredeemable Paper Money
35. Congressman Louis T. McFadden – Public Interest Must Not Be Suppressed by Partisanship and an Abandoned Constitution
36. Congressman Louis T. McFadden – Bankhead Cotton Control Bill
37. Congressman Louis T. McFadden – Present Day Government
38. Congressman Louis T. McFadden – Freedom and Planning
39. Congressman Louis T. McFadden – Analysis of Freedom and Planning
40. Congressman Louis T. McFadden – Communistic Propaganda in the U. S.
41. Congressman Louis T. McFadden – The Constitution or Its Disapproval
42. Congressman Francis H. Shoemaker – The Federal Reserve Bank: The Greatest Steal in American History
43. James A. Reed – The Constitution of the United States
44. James M. Beck – Shall We Abandon Ship?
45. J. Reuben Clark, Jr. – The Principles of George Washington
46. George W. Maxey – The Re-Making of Human Society
47. Herbert Hoover – The American Bill of Rights

48. Senator William E. Borah – Our Foreign Policy
49. Henry W. Taft – James Madison and the Obligations of Citizenship under the Constitution
50. Herbert Hoover – Criticism of the New Deal
51. George W. Maxey – The Constitution: Guarantee of Human Rights and Economic Liberalism
52. James A. Reed – False Banners
53. George W. Maxey – What America Must Decide
54. William J. Donovan – The Case Against the New Deal
55. Charles C. Tansill – The American Doctrine of Judicial Review
56. Herbert Hoover – A Holy Crusade for Liberty
57. Arthur A. Ballantine – Erosion by Government Finance
58. Whose Constitution? The Peoples' or the President's – George W. Maxey
59. The Future of Free Enterprise – Samuel B. Pettengill
60. Senator William E. Borah – Our Supreme Judicial Tribune: Proposed Changes and the People
61. Josiah W. Bailey – The Supreme Court, the Constitution and the People
62. George R. Farnum – Storm Over the Supreme Court
63. James Truslow Adams – What the Supreme Court Does for U. S.
64. Alf M. Landon – Mr. Roosevelt Is a Changed Man
65. The Problem in 1787 and How It Was Met – George W. Maxey
66. Constitutional Government – Senator William E. Borah
67. How Long Will the American Republic Last? – Senator Edward R. Burke
68. Religious Liberty – Judge John P. McGoorty
69. Brigadier General Bruce P. Disque – Our inheritance from Washington: May His Spirit Guide Our Destiny

70. Senator William E. Borah – Our Imperative Task: To Mind Our Own Business
71. Walter E. Spahr – A Government Creed for Americans
72. O. R. McGuire – The Executive Power in the Federal Government
73. Herbert Hoover – It Is In Our Blood: Political, Intellectual and Spiritual Freedom
74. George W. Maxey – The Descent to a Dictatorship
75. Herbert Hoover – Morals in Government: The Yearning for Freedom Is Not Dead
76. J. Reuben Clark, Jr. – Constitutional Government – Our Birthright Threatened
77. James D. Mooney – Paper Money: A National and Industrial Hazard
78. Senator Robert A. Taft – Let Us Stay Out of War
79. Senator Millard E. Tydings – How Far Should Government Control Business: No Constitutional Power to Control
80. Mark Eisner – The George Washington Tradition: Its Great Value Today
81. J. Reuben Clark, Jr. – America – "A Land Chosen Above All Other Lands"
82. Senator Arthur H. Vandenberg – Peace or War for America: It Is Not Cowardice to Think of America First
83. Governor John A. Bricker – The New Patriotism
84. Senator David L. Walsh – Keep America Out of War
85. H. W. Prentis, Jr. – Our American Heritage: Revive Patriotism and Religious Faith
86. Congressman Joseph W. Martin – Let Us Now Go Forward: Every Economic Hallucination Has Been Tried
87. Herbert Hoover – Compulsory Cooperation Is Slavery
88. George A. Dondero – Our Form of Government: A Republic
89. Major General J. G. Harbard – The Relative Position of the Individual Under Democratic and Totalitarian States

90. Congressman Joseph W. Martin, Jr. – The Heart and Spirit of America: The Inspirations of Freedom
91. Senator William E. Borah – Retain the Arms Embargo: It Keeps Us Out of the War
92. C. M. Chester – Industry's Stand Against War
93. Senator George W. Norris – American Neutrality: Let Us Keep the Dollar Sign Off the American Flag
94. Senator Robert A. LaFollette, Jr. – The Neutrality Issue
95. J. Steele Glow – War – Its Economic Impact on the United States: The Path to Destruction and Bankruptcy
96. Walter E. Spahr – The Relation of Government to Business
97. Congressman Martin Dies – Insidious Wiles of Foreign Influence: Have We Forgotten Washington's Advice?
98. Merwin K. Hart – Are There Subversive Activities in Our Schools?
99. Benjamin M. Anderson – Government Economic Planning
100. Thomas S. Gates – The Strength of the Creeds of Our Fathers
101. John Hamilton – Liberalism: It Has Become Popular Catchword
102. J. Reuben Clark, Jr. – Lincoln: The Man of Inspired Leadership
103. Congressman Bruce Barton – The Faith of Abraham Lincoln
104. Merwin K. Hart – Did You Say Democracy?
105. Robert R. McCormick – Our Republic Is at Stake
106. J. Reuben Clark, Jr. – Why I Am an American
107. Harry Emerson Fosdick – The Crisis Confronting the Nation
108. Senator Burton K. Wheeler – Marching Down the Road to War
109. Robert Gordon Sproul – Character: The First Line of Defense
110. J. Reuben Clark, Jr. – Federal Regulation of Insurance

111. George Barton Cutten – Your Freedoms at Stake
112. Congressman James E. Van Zandt – Keep America Out of War
113. General Robert E. Wood – Our Foreign Policy: The Course We Are Pursuing Leads to War
114. O. R. McGuire – Political Ideologies in This Changing World
115. Senator Rush D. Holt – The American People Want Peace
116. H. W. Prentis, Jr. – The Citadels of National Defense
117. J. Howard Pew – Preserving the Private Enterprise System
118. Senator Burton S. Wheeler – America's Present Emergency
119. J. Reuben Clark, Jr. – Lincoln and the Civil War
120. George F. Barrett – The Future of Our States and Cities in Our Governmental Structure
121. O. R. McGuire – The Third American Revolution
122. H. W. Prentis, Jr. – Preserving the Roots of Liberty
123. Robert I. Gannon – Lincoln
124. Daniel L. Marsh – The American Canon
125. Governor Frank M. Dixon – Federal-State Relationship: The Dangers of Centralization in Government
126. Harley L. Lutz – Can Local Government Survive?
127. Senator Joseph C. O'Mahoney – The Declining Power of the States
128. Governor Frank M. Dixon – Crossroads Democracy: Concentration of Powers is Dangerous
129. J. Reuben Clark, Jr. – Some Factors of a Now Planned Post-War Government and Economic Pattern
130. Senator Joseph C. O'Mahoney – Preserving the Constitutional Authority of the U. S. Senate

131. Senator Robert A. Taft – International Commitments Violate U. S. Sovereignty
132. Senator Francis Maloney – Regaining Congressional Power Over Trade Issues
133. Senator Harry F. Byrd – Economy in Government
134. Francis Biddle – Cartels
135. William LaVarre – Government Control of Foreign Commerce
136. Congressman Jerry Boorhis – Oil Workers Go on Record for Constitutional Monetary System
137. Congressman William A. Pittenger – The Relation of the Federal Government to Sovereignty
138. Senator Kenneth S. Wherry – What About Our American Economy?
139. Congressman E. E. Cox – How Can Business Help Preserve Constitutional Government and Free Enterprise?
140. J. Reuben Clark, Jr. – Some Elements of Postwar American Life
141. Senator Dennis Chavez – The Importance of Maintaining the Integrity of the U. S. Constitution
142. Congressman Louis Ludlaw – The Proposed Treaty Ratification Change Violates Integrity of the Origin and Document
143. Harry V. Dougherty – The Lord Chord: Government Is the Servant: Not the Master
144. J. Reuben Clark, Jr. – The World Crisis Today
145. Governor William M. Tuck – Improvement and Preservation of State and Local Self-Government
146. Lindsey C. Warren – States Must Assert Leadership
147. O. R. McGuire – Erosion of Constitutional Landmarks
148. Howard W. Jackson – Our Constitution: Our rights and Our Responsibility as Citizens
149. J. Reuben Clark, Jr. – Inroads upon the Constitution by the Roman Law

150. J. Reuben Clark, Jr. – American Free Enterprise
151. J. Reuben Clark, Jr. – Slipping from Our Old Moorings
152. William J. Walker – The Taft-Hartley Law
153. Harry S. Truman – Tyranny vs. Freedom
154. Frank P. Holman – Our American Heritage
155. O. R. McGuire – Structure and Substance of Constitutional Government Endangered
156. Frank E. Holman – An International Bill of Rights: Proposal Has Dangerous Implication for U. S.
157. Walter E. Spahr – The March into the Death Valley of Socialism
158. Collectivism and the Modern Lawyer – Senator Joseph C. O'Mahoney
159. Philip Cortney – International Trade Organization Charter: A Dishonest Document
160. Senator George W. Malone – The North Atlantic Treaty
161. J. Reuben Clark, Jr. – The North Atlantic Treaty
162. Emerson P. Schmidt – Socialism – The American Pattern
163. Emerson P. Schmidt – Distance Traveled Along the Road to Statism
164. Senator George W. Malone – American Workers vs. Free Trade
165. Thurman Sensing – Is It Too Late to Save America
166. George A. Finch – Genocide Convention Does Not Prohibit Mass Killing of People by Governments
167. The Ageless Lincoln – Robert L. Kincaid
168. The American Way – Otto E. Koegel
169. Clarence Manion – The Lust for Power
170. Senator Herbert R. O'Connor – Stop Asking Washington to Do It
171. Arthur Mieghen – The Welfare State

172. William H. Fitzpatrick – Government by Treaty
173. Frank E. Holman – Treaty Law-making: A Blank Check for Writing a New Constitution
174. Congressman Noah M. Mason – Uncle Sam, Inc.
175. H. W. Prentis, Jr. – The Price of Freedom
176. General Douglas MacArthur – The Battle to Save the Republic
177. Congressman John T. Wood – The Story of the United Nations: Duplicity and Intrigue
178. Congressman John T. Wood – Report to the American People on UNESCO
179. W. C. Mullendore – The American Retreat from Freedom
180. Ruth Alexander – What Price the Welfare State?
181. Fred G. Clark – Not by Bread Alone
182. F. A. Harper – What to Do about Preserving the Free Market
183. Wheeler McMillen – The Federals Are Coming
184. J. Reuben Clark, Jr. – Our Dwindling Sovereignty
185. Donald J. Cowling – What Did Our Forefathers Try to Accomplish?
186. Senator Capehart – International Schemes of the 20th Century
187. Senator George W. Malone – Postpone Ratification of Japanese Treaty
188. Congressman Shafer – Is There a Subversive Movement in the Public Schools?
189. O. R. McGuire – The American Way of Life and the U.N.
190. Frank E. Holman – The Constitution and the U. N.
191. General Douglas MacArthur – America Now Stands at a Crossroads
192. General Douglas MacArthur – American Tradition
193. W. M. Cornelius – Corporations Do Not Pay Taxes

194. Senator John W. Bricker – America's Greatest Danger: Domestic Legislation by Treaty
195. Senator William F. Knowland – The Survival of Our Nation
196. J. J. McLarney – The Context of Freedom
197. General Douglas MacArthur – Misdirection of Domestic and Foreign Policies
198. William H. Fitzpatrick – Government by Treaties
199. Congressman Usher L. Burdick – Should the U.S.A. Continue to Support the U.N.
200. Congressman John T. Wood – Should the U.S.A. Continue to Support the U.N.
201. Myra C. Hacker – Opposition to Global Governance
202. Mrs. James B. Patton – The Danger of World Government
203. John B. Trevor – Opposition to World Government
204. Congressman Lawrence H. Smith – Should the U.S.A. Support a Federal Union of All Nations?
205. Congressman William E. Jenner – Should the U.S. Supports Federal Union of Atlantic Pact Nations
206. Senator George W. Malone – International Organizations Will Destroy U. S. Sovereignty
207. Senator Robert A. Taft – Restore Government Based on American Principles
208. Walter E. Spahr – Our Currency Should Be Redeemable in Gold
209. Senator Pat McCarren – The Communist World Conspiracy
210. Senator John W. Bricker – Should the U.S. Constitution Be Amended to Curb the Use of the Treaty Power?
211. Senator Pat McCarren – The Torch of Freedom
212. Mrs. James B. Patton – The Surrender of National Sovereignty
213. George A. Finch – Limiting the Treaty-Making Power of the Executive Department

214. J. Reuben Clark, Jr. – Let Us Not Sell Our Children into Slavery
215. Thomas H. Kuchel – Let Our Constitution Be Supreme
216. Carl F. H. Henry – Christianity and the American Heritage
217. Frank E. Holman – The Greatest Threat to Our American Heritage: John W. Bricker Amendment Will Protect Our Bill of Rights
218. Senator William F. Knowland – High Noon for United Nations
219. Frank E. Holman – Let's Stop Giving America Away
220. Clarence Manion – How Is Your Constitution
221. Senator Hugh Butler – The Bricker Amendment: Why It Is So Vital
222. Harry Sears – The Conspiracy Against Gold
223. Herbert Hoover – The Protection of Freedom
224. George E. Stringfellow – How Tyranny Is Born
225. Walter E. W. Spahr – The Outlook for Sound Money in the United States
226. R. Carter Pittman – George Mason: Architect of American Liberty
227. Frank E. Holman – The Greatest Threat to American Freedom
228. O. R. Strackbein – Look Out for the GATT
229. Governor Arthur B. Langlie – States Rights and State Duties
230. William F. Knowland – The United Nations – Impotent and Paralyzed
231. Senator George W. Malone – The Constitutionality of the 1934 Trade Agreements Act
232. Senator John W. Bricker – Preserving the Freedom and Sovereignty of America
233. Eberhard P. Deutsch – The Importance of the Bricker Amendment
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Part I Preface

i. The Doctrines of Machiavellianism Permeate the World of Business and Society

**By
Ida M. Tarbell**

Some four hundred years ago there was living quietly in a little villa not far from the City of Florence Italy, a man about forty-five years old, Niccolo Machiavelli by name. His serious occupation – followed at night after a day spent in superintending his estate and drinking wine with his rustic neighbors – was writing a treatise explaining how, in his judgment, the then existing government of Florence could bring that city back to a power and glory which it had lost. Signor Machiavelli was very well fitted for his task. He was not a scholar, in the strict sense of the term, but he was a man thoroughly familiar with his world. He knew its literature and its history. He was an able writer, perhaps the first prose writer Italy had ever produced. He was a man of large experience in politics, diplomacy, society. For fifteen years before taking to his little villa he had been the private secretary and confidential agent of the most powerful factor in the Florentine Republic – the Council of Ten, and in this position he had seen from the inside some of the most extraordinary events of the period. He had been with Cesare Borgia when that crafty general, having lured a large number of his enemies to a conference to discuss terms of peace, cut off their heads – for the good of his country! He had passed months at the court of Francis I, one of the greatest of French Medieval sovereigns, begging men and money to help Florence keep off her enemies. He had matched cunning with cunning; deceit with deceit, bullying with bullying, logic and logic in the leading diplomatic circles of Europe. He was a man of his world, too, always in the thick of the cleverest circle of his city, gossiping, carousing, agitating. He could run an enemy through with a sword, if need be; he could play the gallant with the best of them; he could turn a sonnet to suit the critical taste of his day; and he could write a pamphlet or a creed for the city gate as no other man in Florence. In short, Machiavelli was a versatile, brilliant, learned man of his times – but he was something more than most of such gentlemen, of whom Florence had many. He had a mind of extraordinary analytical power, a genius for construction, a warm devotion to his native city, and a patriotic passion for her glory.

Machiavelli Teaches Despots How to Make Themselves Impregnable

Signor Machiavelli was altogether too young and too much in love with life and action to be spending his nights in writing a treatise on government if he could have helped himself. But he could not. He had lost his office by the overthrow of the Republic of Florence and the restoration of the old despotic power of the Medici. Machiavelli saw no chance for a restoration of the republic. But he

believed he did see the way for an able Despot to make Florence all powerful in Italy. He decided to explain his views to the Medici. The world has always been divided as to why Machiavelli, a Republican and practically an exile because of his principles, should have attempted to teach a Despot how to make himself impregnable and his state glorious. There are those who say it was that he might be restored to place – and certainly Machiavelli, when he came to offer his treatise to the Medici, offered his services along with it, pleading that the work itself proved his fitness to serve a Despot, – which it certainly did; but there was a great deal more than a desire for a position in Machiavelli's mind. He loved his Florence – ardently, passionately desired her glory. He saw no chance for the success of a Republic. He believed a powerful and wise Despot could make a state glorious and it mattered little to him how Florence became a stable power if she only achieved the end, and so Machiavelli wrote his *Prince* – a work destined to become one of the few treatises which have crystallized a political theory into permanent form, a work that fits any age and will continue to fit any so long as human nature remains what it is.

The Business of a Prince Is to Make His State Great

And what was this theory that Signor Machiavelli worked out so well? So direct, so lucid, so comprehensive, and so frank is the *Prince* that a very brief analysis makes it clear. It opens with a definition of "the business of a Prince," which, says Machiavelli, "is to make his state great and to extend its borders." In Machiavelli's day the Prince so generally came into power by force or by adventurous brigandage that it was this class of rulers alone which he seriously considered in his Treatise. Obviously the first requirement of a Prince who has secured power is an army, his chief art is the art of war. Even the prophets themselves stood or fell by their power to back up their teachings by force, Machiavelli claimed. Thus Moses succeeded because he had an army to back up his laws. Savonarola failed because "when the multitude ceased to have faith in him he was destitute of the means either to compel faith or to inspire confidence." It was a Medieval application of the more modern saying, "Trust in God and keep your powder dry."

The Prince Should Use Secret Intrigue and Treachery

But while Machiavelli places full stress on the necessity of making war in the most scientific and approved manner, he by no means limits his Prince's duties to raising and disciplining troops and to conducting aggressive campaigns. In his judgment there is another and no less important field of action for every Prince, It is that of secret intrigue and treachery, the place in which states are most surely undermined and destroyed. The chief weapons in this field are lying, treachery, cruelty; and Machiavelli calmly advises the use of each, always supporting his contention with ample historical illustrations.

Lying and Craftiness Is a Necessity for a Prince

Lying, in his opinion, is a sacred necessity. "A prudent prince cannot and ought not to keep his word," he says, "except when he can do it without injury to himself, or when the circumstances under which he contracted his engagement still exist." Craftiness is to be cultivated sedulously. Indeed, Machiavelli impresses it upon his Prince that the fox is a worthy example to emulate. "As a Prince must learn how to act the part of a beast sometimes, he should make the fox and the lion his patterns, but the fox often wins when the lion would fail: I could give numerous proofs of this and those who have enacted the part of the fox have always succeeded best in their affairs.

A Prince Should Not Be Afraid of Cruelty

Nor should he be afraid of cruelty. Like lying and treachery it is often necessary. In an army it is useful in helping keep troops in order. In governing a city it prevents uprisings.

It is Better to Be Feared Than Loved

These are hard practices and evidently make a man feared and hated. Machiavelli calls attention to this fact and argues it out logically: "It has sometimes been asked," he says, "whether it is better to be loved than feared, to which I answer that one should wish to be both, but that is a hard matter to be accomplished and I think if it is necessary to make a selection it is safer to be *feared* than to be loved. Men are generally more inclined to submit to him who makes himself dreaded than to one who merely strives to be beloved; and the reason is obvious, for friendship of this kind being a mere moral tie, a species of duty resulting from a benefit, cannot endure against the calculations of interest; whereas fear carries with it the dread of punishment, which never loses its influence.

The Prince Must Renounce Good

As a general rule, Machiavelli lays it down that hatred is as easily incurred by good actions as by evil – and that when the strongest party is corrupt the Prince must comply with their disposition and content them. "He must renounce good or it will prove his ruin."

To Maintain Power a Prince Should Not Be Good

It is not a high notion of humanity that such doctrines as these presupposes. Machiavelli admits this frankly. Indeed, throughout his treatise he repeatedly claims that it is only possible to practice the methods he advises because men are generally so cowardly, so treacherous, and so selfish. For instance, in explaining the wisdom of not keeping promises he says, "I should be cautious in inculcating

such a precept if all men were good; but as the generality of mankind are wicked and ever ready to break their words, a prince should not pique himself in keeping his more scrupulously, especially as it is always easy to justify a breach of faith on his part." And again in cautioning His Prince against having any pride in being considered just and good he says, "The manner in which men live is so different from that in which they ought to live, that he who deviates from the common course of practice and endeavors to act as duty dictates necessarily insures his own destruction. A Prince who wishes to maintain his power ought therefore to learn that he should not be always good.

The Use of Force and Treachery

It is thus by force, craft, and treachery and by a wholesale application of the principle that every man has his price that the great Italian taught that power is to be secured. But this means enemies, for, whereas, a man beaten in an open contest waged according to the rules of war, may become a friend, he who has been stripped of his possessions by craft and treachery combined with force rarely, if ever, can be trusted.

The Prince Should Take Men into Partnership or Crush Them

How shall he deal with them? It is simple in Machiavelli's judgment. "Either make a man your friend or put it out of his power to be your enemy," he says. That is, take him into partnership or crush him. "He may revenge a slight injury, but a great one deprives him of his power to avenge. Hence the injury should be of such magnitude that the Prince shall have nothing to dread from his vengeance." That is, the only safe way to deal with a conquered enemy is to destroy him, and particularly is this true if that enemy has ever known freedom.

The Prince Should Not Help a Rival Power

Not only must you destroy all those you conquer, but under no circumstances should you help a rival power in any of its enterprises, even if those enterprises be quite foreign to those in which you are interested – nothing in which as far as you can foresee you ever will be interested, for the prince who contributes to the advancement of another power runs the risk of ruining his own. The rival may, through the help given him, so advance in power that it may one day ruin the Prince himself – that is, never help in any way anybody outside of your domain.

The Rules for Securing and Increasing Worldly Power

But while Machiavelli lays down forcibly and clearly the above rules as essential to securing and increasing worldly power, he repeatedly advises against the unguarded use of them. For instance, cruelty must always be "well applied" – that is, only exercised when it is absolutely necessary. Again, although a Prince must do evil when required to preserve and strengthen his domain, he must, above

all, preserve an appearance of always doing good. "A prince should earnestly endeavor to gain the reputation of kindness, clemency, piety, justice, and fidelity to his engagements. He ought to possess all these good qualities, *but still retain such power over himself as to display their opposites whenever it may be expedient.*

The Prince Should Maintain an Outward Appearance of Kindness and Piety

"I maintain that a Prince, and especially a new Prince, cannot with impunity exercise all the virtues, because his own self-preservation will often compel him to violate the laws of charity, religion, and humanity. He should habituate himself to bend easily to the various circumstances which may, from time to time, surround him. In a word, it will be as useful to him to persevere in the path of rectitude, while he feels no inconvenience in doing so, as to know how to deviate from it when circumstances dictate such a course. He should make it a rule, above all things, never to utter anything which does not breathe of kindness, justice, good faith, and piety; this last quality is most important for him to appear to possess, as men in general judge more from appearances than from reality. All men have eyes, but few have the gift of penetration. Every one sees your exterior, but few can discern what you have in your heart."

The Doctrine of the End Justifies the Means

These, briefly, are the famous principles of Machiavelli. In a word, it is the doctrine that the end justifies the means, that whatever is necessary in order to secure the glory of your country is right. Men should love their country more than their souls.

Machiavelli Sought to Teach a Tyrant How to Become Impregnable

Machiavelli gave the *Prince* to the Florentine Despot, but he did not get his reward. Whether the treatise was too strong for the stomach of Lorenzo or not, we do not know. It was only after Machiavelli's death that the work was published, and no sooner was it out than a storm of indignation broke over it. Impious, infernal – no adjective was too strong to describe the popular judgment. The Republicans called him traitor because he sought to teach a tyrant how to become impregnable. The Despots hated him because he showed their hand. The church, outraged by his frank accounts of the discrepancies between her practices and principles, put the Prince under its ban and burnt Machiavelli in effigy. And yet Machiavelli had not invented Machiavellianism. He simply described as clearly and succinctly as he could the methods which his observation and study had taught him to be the most successful in ruling Italian cities. He had considered not at all the morality of methods – no despot who won glory did that. He had considered not at all that a man might lose his soul, might drive other men to destroy their souls, by these practices.

Machiavelli Revealed the Formula for Worldly Success

The glory of the state – that in Machiavelli's mind was the end of all political action. If it cost men their souls why still the glory of the state justified the price. Italy had taught him this, yet Italy, when she saw her own theory stated in black and white, turned on the man who had analyzed her so plainly, and called him traitor. The world took up the cry and from that day to this has characterized the theory that the end justifies the means with the opprobrious title of Machiavellian. It has made an adjective of reproach of the great Florentine's name, as if he had let loose the evils inherent in the theory which bears his name. As a matter of fact, all that Machiavelli did was to work out the formula for worldly success followed by the ablest rulers of his own time. His crime in the eyes of Florence was that he revealed the formula.

The Principles of the Prince Are in Active Operation Throughout the World

But though the world repudiated the Machiavellian theory as soon as it saw the light, it by no means abandoned it. Again and again since the *Prince* first was written, four hundred years ago, its principles have been in as active operation as in the age of despots. Again and again those who hated and feared the theory have risen to overthrow it. What was the Reformation in essence but a revolt against Machiavellianism in the church. What was the French Revolution? Every age, indeed, has seen this theory intrude itself in Church or State, and has seen an attack upon it. Every country has had repeated struggles with it, so has every institution; indeed, so does every individual who aspires.

Machiavellianism Arises in America in the 1880s

There has always been a trace of Machiavellianism in American life, but never in the history of our country has the formula been applied and openly defended, until the last two decades.

A Modern Treatise in the Art of Acquiring and Extending Power

Today, however, one could easily reconstruct out of the mouths of our captains of industry a modern edition of the *Prince* which would serve quite as well as a textbook for the aspirant to financial power as the Prince of Machiavelli would have served Lorenzo Medici if he had the brains, the daring, and the dexterity to apply it. The object of this modern treatise, like that of the Medieval one, would be to instruct in the art of acquiring and extending power; but while four hundred years ago it was acquiring power in order to make a state rich and glorious, today it is acquiring power in order to make oneself rich and glorious. Four hundred years ago it was a state which the Prince aspired to control, today it is a great business – a natural product like iron or coal or oil, a great food product like beef, a great interstate transportation line like the railroad, a great deposit for the savings of the poor like a life insurance company. These are the Kingdoms for which the modern

man sighs. They do not come to him as an inheritance any more than in the fifteenth and sixteenth centuries Italian cities came to Despots by inheritance. They come by force, and today, as in Machiavelli's time, the chief art of the would-be captain of industry is war, the end of which is to acquire that which other men now control.

Business Is War

It matters not at all that the man who owns the enterprise desired to extend the captain's power may have been a pioneer in the industry, may have been one of the first in the country to make sugar, or produce oil, raise cattle, or ice cars; it matters very little that he has developed his own markets, invented his own processes and machines; his property is wanted and he cannot be allowed to live free any more than in Machiavelli's judgment Cesare Borgia should have allowed the Italian princes whose domain skirted his and who were weaker than he to live free. Business is war, then, not a peaceful pursuit.

The Art of Developing Monopolies

And this commercial warfare has been developed by our modern captains to a science as perfect as the militarism of the nations. Its tactics are as admirable, its plans of campaign as clear and able. – You want to control beef, for instance – an excellent kingdom to master, so steady and sure are its resources in a prosperous land. But how can you do it? It is an industry as old as the nation. It has been built up and is owned and managed by ten thousand cattlemen on a thousand hills and plains, by hundreds upon hundreds of dealers in the numberless cities and villages and country-sides of the land, by scores upon scores of railroads and steamship lines which compete to carry its products. Where is the central position which, controlled, will bring them all, cattle-raiser, transporter, marketman, under your direction or, if you prefer, drive them from the industry? Any modern captain will tell you it is in transportation. If you can, by any means, so control the railroads and steamships which ship the cattle first and the dressed meat later as to obtain better rates than anybody else, you can control ranchmen and dealers. For if you can ship what you buy cheaper than your competitors, you can afford to sell cheaper. The world buys where it can buy cheapest. In time the world's market is yours and when it is yours you can pay the ranchman your own price for cattle. There is nobody to offer him another. You can make your own rate for the transportation; you are the only shipper. You can demand of the consumer the highest price. There is nobody to offer him one lower.

The Development of Financial Monopolies

Secure the special favor of the railroad then and the rest will be easy, as it is in all great military campaigns where the key to the position has been found and where all resources have been concentrated on its capture. And this favor secured, go after the dealer. If you are a courageous and plausible person, tell him frankly

that his business belongs to you, and he had better sell at once. But he does not wish to sell. He has queer ideas about the business being his. He stands on what he calls his rights and a fight is as inevitable as it was in Machiavelli's time when some little Italian town accustomed to governing itself refused to turn over its keys to a big neighbor. And it is beautifully clear from the revelations of our captains of industry during the last thirty years of investigation on what plans the fight will be fought. Cut off his supply of meat. If he has none he sells none. But cattlemen cannot be prevented from selling. No, but if it costs the obstinate dealer more to get that meat to his market than it does you to get it to yours, he cannot sell at the price at which you sell. And here enters the railroad rebate – the modern battering-ram for crushing those who fight to save their own. Crushing them by preventing them getting the supply on which they feed at livable rates of transportation. We all understand it. For nearly forty years we have had it illustrated constantly before our eyes. Recently we have had it *ad nauseam*. Small dealers in oil and coal and lumber and salt, and a hundred other things forced into combination, into bankruptcy, or into new lines of business – because they could not get a rate which enabled them to ship; the big shipper forcing the discrimination until his rival succumbed like a wall weakened by incessant battering.

The Attacks on Recalcitrant Businesses

But the besieging captain of today has other weapons than his formidable special rate. Have you ever watched, month after month, an attack on a recalcitrant business by some great leader? It is quite as interesting in its way as the study of the siege of Toulon, of Vicksburg, or of Port Arthur. Mines are run under the man's credit and exploded at the moment when they will cause the most confusion, abatis are constructed around his markets until whenever he would enter them he falls into entanglements which mean retreat or death, a system of incessant, deft sharpshooting is kept up, picking off a bit of raw product here, delaying a car-load there; securing the countermand of an order at this point, bullying or wheedling into underselling at that, trumping up lawsuits, securing vexatious laws. For fertility of invention in harassing maneuvers I recommend the campaign of a modern captain of industry as far superior to the annoyances of the famous guerrilla warfare of the Spaniards.

The Modern Captains of Industry Use Machiavellian Tactics to Destroy Free Enterprise

Now we will all admit that under the competitive system, in a sense, business is war; that is, men are each rightfully seeking to make his own venture as big and as powerful as his ability and energy permit, but in all war, even that of four hundred years ago, there are rules. Compare the use of the ancient battering-ram with the use of the modern one – the rebate. The former was recognized as a legitimate instrument, and the latter has always been declared illegitimate. That is, when an Italian Despot sallied forth to knock down the walls of a city he wanted to add to

his domain he used an instrument which the laws allowed – but our modern captain uses as his principal weapon of conquest an instrument forbidden by all the laws of the game. As far as weapons of war are concerned, he really goes the Italian Despot one better. Not only that; he equals him easily in those practices which have always been supposed to be an Italian specialty, and which, as has already been pointed out, form the backbone of Machiavellianism as it is developed in the *Prince*. Consider the parallel. Our modern captain, like our medieval tyrant, must be prepared for cruelty. If he cannot win over a man and make him a convert to his scheme, or if he does not want him in his aggregation – he must put it out of his power to be his enemy – that is, he must crush him. Machiavelli suavely advises to do him an injury of such magnitude that the Prince shall have nothing to dread from his rival's vengeance. This will make you feared, of course, but the consoling observation Machiavelli offers to those who may gulp a bit at wholesale slaughter is that it is safer to be feared than loved.

People Fear the Captains of Industry on Wall Street

What is today half the power of a half-dozen of our leading captains of industry? It is that they are *feared* by thousands of men. What is it that drives many a railroad president to grant rebates – a crime in the eyes of the law for which he knows that if the government does its duty he will be fined and imprisoned? Fear of a warfare on his freight, his bonds, his stocks. Why do so many men with righteous causes of complaint throw up their hands at the approach of the captain of their particular industry? Because they know that resistance almost inevitably has ended in failure. Every one who knows Wall Street – the railroad business, the copper-steel, oil, beef business – knows that half the popular stock in trade of the leaders is that they have intelligently and persistently cultivated Machiavelli's counsel that it is safer to be feared than loved.

Wall Street Business Leaders Lie to the American People

It is not only cruelty which is necessary in modern businesses. It is lying. Follow the testimony in the great insurance investigations of the past fall and compare it with the investigations of other years, and perjury sticks out at every corner, perjury so obvious in many cases that it is laughable. Follow the testimony of the leader of the great oil trust – that of many railroad men. When it is necessary they lie. – No Borgia or Medici ever followed more wisely and carefully than our captains Machiavelli's great rule – "A prudent prince cannot and ought not to keep his word except when he can do it without injury to himself."

Lying for the Sake of Business

But while the Machiavellian rule that a Prince should do evil or good according as the one or other serves his interests can be shown by a multitude of documents to be followed faithfully and intelligently by the modern captain of industry, he is no less scrupulous in obeying Machiavelli's injunction not to do evil unnecessarily,

that is to do it only when it is necessary to attain the end. Our modern captains of industry rarely lie or break the laws, bribe or practice cruelty, save for the sake of the end that is they do not do these things for the sake of doing them as a Caligula or a Nero would have done. They do them for the good of the business. Listen to one of our railroad officials who, recently on the stand, testified to granting a rebate. "We knew it was illegal but it was the only way we could get our share of the business;" that is, the law is less important than the share of business.

In the Minds of Commercial Leaders the End Justifies the Means

In one great concern where for nearly forty years there is an unbroken record of lawbreaking and of spying and of hard dealings, the repeated explanation has been that it was for the good of the business. Not long ago a Western Senator of the United States was found guilty of stealing public lands. A former colleague openly justified him on the ground that by this robbery the land had been opened up more quickly than it otherwise would have been. Wherever a case comes to the surface it is promptly justified as necessary to keep up the dividends, expand race, meet competition, get your share of the business, stimulate commerce. That is, in the minds of our commercial leaders the end justifies the means as much as it ever did in the mind of Cesare Borgia, the monks of the Spanish Inquisition, of Napoleon Bonaparte, or of Count Metternich.

Modern Captains of Industry Use Charitable Giving to Deceive People

Probably at no period of the world's history where the Machiavellian formula has been the chief working one of a great social institution has its crowning principle – to give the whole fabric the color of charity – been so universally practiced as it is today by our captains of industry. Cesare Borgia, Machiavelli's great model and that incredible villain, his father, Pope Alexander VI, troubled themselves precious little about screening their deeds with clemency and charity – their failure to do so was a chief cause of their final failure. Machiavelli realized this and it was his reason for repeatedly putting emphasis on the necessity of posing as a saint, however great a devil we may be. Today there is hardly to be found in American industry a leader, however Machiavellian in practice, who does not seek to justify himself in the eyes of the public by some form of benefit to society. He may cultivate the arts, he may establish lectureships, he may endow colleges, he may build hospitals, but whoever he is – however truly a commercial brigand he is, he follows Machiavelli in appearing a social benefactor. It is instinct with him primarily – not calculation. There are few men, whatever their practices, who do not instinctively desire to be called honorable and generous, and to be considered gentlemen.

When the People Become Alarmed Create a Distraction

The world has so advanced since Machiavelli's days, too, that few men are so unconscious of the social obligations that they do not try to square themselves with

God and man for what they take contrary to the legal or the moral code. But what may be instinct at first inevitably becomes a calculation as they grow in brigandage. They see it pays to be known as public benefactors. That such a reputation will keep the public silent longer than any other. That a great gift may often head off a legislative investigation. It is an application of Napoleon's wisdom: When the people are restive, "gild a dome," that is, give them something new to see and talk about, distract their attention; that done, their sense of injustice is soon asleep.

Commercial Machiavellianism Is the Accepted Business Code of Today

Now this parallel between our modern industrial code and that of the *Prince* is not a mere fanciful one. It is a legitimate historical parallel easily reinforced by a multitude of documents as every one must admit who knows the industrial records of the United States for the last forty years. Commercial Machiavellianism is the accepted industrial formula. It is not only accepted and defended as necessary to our national prosperity and our happiness by those who practice it and profit by it, but the Nation, as a whole, winks at it. How often do we hear from the lips of eminently respectable citizens the words: "Business is business"? How often in justification of lying, "Everybody lies"? How often in defense of bribery the words of the Missouri judge, "Bribery at worst is merely a conventional crime"? How often the words of Tim Campbell of New York "What's the Constitution between friends"? That is, the public as a whole is coming to admit Machiavellianism as a business necessity and to justify it by the end.

The Accumulation of Private Wealth and Power

Now looked at a little more closely what is the business end our captains of industry seek? It certainly is not – never has been – except in rare cases, the mere accumulation of private wealth, the mere winning of personal power. These men who control the industrial world today are, as a rule, men of "great imagination – men who have looked over a vast field of scattered forces and seen how they might bring them into harmony and direct them to definite ends, how in thus combining and organizing they might not only build in their own land one great and splendid industry in the place of the thousands of little ones now doing the work, but they might extend this great creation into foreign lands, thus enlarging American empire, piling up American power, enriching the American people.

The Dream of Universal Empire

Our captains of industry are poets in their ways – poets who rhyme in steel and iron and coal, whose verses are great ships and railways and factories and shops. They create that the world may have more food and light and shelter and joy. – They create for the joy of it – for the sake of feeling themselves grow, for the sake of doing for those they love. This, to a degree, is the vision of them all. These are noble ends, but they can only be kept so by noble means. Yet, almost immediately

comes the realization that this dream of universal empire cannot be reached by the means which human law and justice prescribe. What of it? The man, hot with his vision, sees his end as greater than truth, than righteousness, than justice. He gradually, and perhaps unconsciously at first, works out a modern version of the half-pagan formula of Machiavelli to apply to a modern and Christian situation, and the world, dazzled by the magnificence of his achievement, justifies him as he does himself.

Great Monopolies and Trusts in Existence

Now, is he right? Are we right? Is the Machiavellian system today so firmly implanted justified by its results as we see them today? What are the results? Take the material ones. Is there a great monopolistic trust in existence today which has carried out its avowed purpose of better and cheaper products, because of combination? In my judgment not one. The whole history of the trust aiming at monopoly has been that it never gave a pound of beef or a gallon of oil of any better quality or cheaper price than it is forced to do by competition. And why should we expect it to? Suppose that a trust builder started out honestly, fired by the vision of a world-wide machine – a benefit to man and a glory to his nation – and to accomplish this end he breaks laws, crushes rivals, lies, is cruel, treacherous, unscrupulous. How long will his vision resist his evil doing? Let us who have seen our visions fade by the hardening of our hearts which let us grant that the man may have had at the start, is killed by the wrong doing necessary to secure his end. A selfish greed of power and gold replaces it. It cannot be otherwise. The ideal must deteriorate if the means used to realize it are vicious.

Unbridled Greed Leads to Downfall of Powerful Business Leaders

Look at the history of the Life Insurance Companies as revealed recently. The men at their heads have wrought their own ruin by deliberately doing evil – doing evil because of their unbridled, increasing greed. Yet, no doubt, the day was when many of the men foremost in these scandals were fired by the nobility and the sacredness of their business, and looked with pride and exultation on the amount of the return they could by careful and devoted management, make to the thousands upon thousands of the poor who saved and denied themselves and struggled to provide for dependent wife or child. And yet these men came to struggle to secure for themselves and their families and friends the bulk of all the earnings coming from the money of those who had trusted them. Never, indeed, have we had a more perfect example of the ultimate result of the Machiavellian formula – and that is the moral downfall of the man who practices it.

Machiavellian Practices Corrupt Employees and the Youth

But the formula not only ruins the men who practice it – what does it do for the great body of young men who, as employees of a great corporation, must, of necessity, know the meaning of the practices? Take the matter of bribing clerks in

railroad freight offices to turn over information concerning the shipments of rival concerns. In at least one great trust this practice is so extensive as to have become a matter of elaborate bookkeeping. No clerk can be so stupid as not to know he is doing a wrong and harmful act when he betrays private information. He knows the money paid him for the information is a bribe. Yet the money comes from a great and powerful corporation. Even if he wants to refuse it he dares not lest he lose his position. His honor is sullied – his manhood shaken – his soul corrupted. There can be no estimation of the corruption of manliness which this practice alone has caused. There can be no condemnation too bitter of the men who have devised the system. They are corrupters of youth.

Machiavellian Practices Teach That Lying Is Part of Business Strategy

Think again of what must be the effect on a great body of young men employed by a trust, when they know their president has lied deliberately on the witness stand, has lied for the good of the business. There are plenty of such cases revealed in our commercial investigations. The young man loyal to his employer and yet trained to honor the truth must almost inevitably come to the conclusion that lying is one of the necessary implements in successful business – and as time goes on he probably will conclude that it is all right if it will aid in getting you anything you want. If the good of the business justifies lying, it justifies all other things – law-breaking, cruelty, treachery; unconsciously the young man becomes a Machiavellian in his theory of the relation of honor to business.

The Young Men in America are Learning the Art of Commercial Machiavellianism

Not only does he come to defend these practices to himself; he soon will be adept in defending them to others. Let us suppose that the private secretary of some great captain of industry of today – a man who, for the good of the business, has found it necessary to put into practice the methods we have been considering – suppose this man's confidential secretary to be a man of keen and analytical mind, of clear power of expression, of an ardent enthusiasm for business, loving the particular industry whose captain he serves as Machiavelli loved Florence; ambitious to see it all-powerful as Machiavelli was ambitious to see his beautiful Florence powerful; and let it come to a point in his career, as it came in Machiavelli's when he was about forty-five years old, that his industry, after the loss of its first powerful head, retrogrades from a first to a second or a third place in the order of business industries – that it is in danger of falling still lower. The secretary sees the reason – the new management has loosened its grip. It no longer fights for the privileges the law forbids – no longer tracks its competitors in secret and in secret undermines them, no longer bribes or lies. Can you not imagine this secretary reared to believe that these things are essential in business and that business success is a paramount duty; can you not imagine him sitting down to frame for the guidance of those who, in his judgment, are ruining the business – the

code which alone in his experience and judgment can make a business great? That is, our young men the country over are not only learning the essentials of commercial Machiavellianism and accepting them, but they are becoming their defenders. And when they reach this point clear thinking and unselfish actions will be as impossible to them as recent revelations show that they have become to an appalling number of our financial leaders. They are men lost to society – men lost to the state. There is but one name for this and that is treason. Indeed, I doubt if this trust question has a more serious phase than this corrupting of the minds and the hearts of youths.

Machiavellianism Is the Working Formula of the Major Political Parties in America

But this Machiavellian formula affects more than our industrial life today. It is, to an alarming degree, the working formula of our political parties. It has reduced at least one great sport to a degradation which is a national scandal. It crops out in every art and profession. It has invaded even the field whose teachings are most fundamentally antagonistic to it – the field of the Christian religion. What are the scandals of our political life but the gross application of the great Italian's principles. We buy votes that our party may succeed. It is illegal, it is corrupt; but the success of the party is higher law, to which we must sacrifice our common creed of morals. We stuff ballot boxes, run in repeaters, vote in blocks of five, juggle the returns all for the glory of the party. We take the funds of corporations whose only object we know to be to provide a future protection and favor for themselves, we do it though it is in many places contrary to law, and everywhere contrary to sound morals. We tolerate, even support, in their aspirations unspeakable politicians like Addicks of Delaware, Depew of New York, Quay of Pennsylvania. The good of the party requires it. If by any chance scandals occur, bribery is too flagrant, the alliance between the Campaign Committee and the Corporations too obvious, the activities of the politicians too pernicious, we do our best not to force out the truth that we may correct the wrongs; we cover them with plausible explanations, condone them with scriptural quotations on the sin of judging our fellow man – as if the whole basis of government by the people was not judging him – protect them with the pious challenge "let him who is without sin cast the first stone," silence all critics by a bluster of righteous indignation as to the impossibility of people whose aims and words are so noble doing these vile things. It is the Machiavellian game of affirming you are virtuous whatever your practices. It is a great game, and, well played, it works a long time.

The Machiavellian Creed Influences All Aspects of Life Including Literature

But it is impossible in a nation where business and politics are the two absorbing interests that the dominating creed of those interests should not influence all departments of life. It is inevitable that our art and our literature should not escape the Machiavellian hand which rules us. We see it in the overweening

respect that we have for the "best-sellers" among books, the big prices of the artists. Quantity and price, not the integrity, sincerity, and freshness of the product, are unquestionable, powerful motives in artistic life today.

The Influence of Machiavellian Doctrines on Christianity

Most deplorable of all is the influence these doctrines have on the Church. In a poem published not long ago in a leading religious journal this line is found, "The Union right or wrong, still this will be my song." It is nothing but a new version of the Middle Age theory that for the glory of a country a man should be willing to sell his soul. And could anything be more brutally Machiavellian than the arguments recently brought to bear upon one great captain of industry by certain of those who were trying to induce him to contribute to foreign missions, that quite apart from the persons converted the mere commercial result of missionary effort to our land is worth a thousandfold every year of what is spent on missions!

Commercial Machiavellianism Is the Most Alarming Phase of American Life Today

It is this threatening saturation of all our active ties with commercial Machiavellianism which is the most alarming phase of American life today. Unless it is checked it means a general demoralization of the sense of fair play, a general lowering of our intellectual honesty. Our indifference to it up to this point has, perhaps, been natural enough. The nation, as a whole, has been dazzled by its material success. There is no one of us with blood in his veins, with the love of great games and great fights in his heart, that is not stirred by the sight of growth, of expansion, of the piling up of wealth and power. These mammoth enterprises of ours, extending around the earth, fill us with exultant pride. We are an achieving people, we say. We recall, too, that these great material successes mean other things. They mean endowments for our colleges, buildings and equipment for our hospitals, fresh funds for our missions, parks in our cities, pictures in our museum. It is, perhaps, natural that in our pride at the magnificence of our results we should overlook the integrity of the means by which they are achieved, should fail to ask ourselves whether clear thinking, honest living, aspiring ideals, unselfish devotion to unselfish ends were growing as fast as endowments and buildings. It is certainly easy enough for any one to persuade himself for a time at least that material growth is its own justification, particularly when that success contributes to one's pet enterprises.

Growing Public Indifference at How Men Make Money

At all events for many years warnings against the corruption inherent in our illegal and immoral business practices have been received by the majority of those to whom our public morals are entrusted with silence or apology. "Judge not lest ye be judged," "Let him who is without sin cast the first stone," they tell us. Can there be greater blasphemy than to apply these noble Christian counsels to men

convicted repeatedly of betraying their trusts, of perjuring themselves for business sake, of breaking and evading laws for greed. Even the continued revelations of these practices and the awful results in destroying character which are and have been coming to us daily this fall have not been sufficient to disturb the complacency of many a smooth-tongued teacher. We still hear "wait – judge not lest ye be judged " uttered by eminent mouths as proof after proof is laid before us of the ruin of character which has been wrought by our long indifference to how a man made his money if he only made it and gave it to the church or college or city. This is no advocacy of hasty condemnation. To accuse without proof is a crime, but to excuse when you have proof is likewise a crime.

The People Must Declare For or Against the Machiavellian Doctrines

The issue is coming to be too distinct to evade. We must either declare for or against the Machiavellian theory. I am told that it is useless to trouble ourselves, that it will right itself. And that is true. It will right itself in the long run. We all of us may accept, root and branch, the Machiavellian theory, accept it, practice it in our business, in our homes, in society. We may make this country as truly Machiavellian as was the Age of Despots, but that will not defeat the ultimate triumph of eternal justice. The Good is the stronger principle. It finally prevails. All that we can do is temporarily to accelerate or to delay the stream of righteousness. We can help make our age Machiavellian, but all of the men of the earth combined cannot entrench that theory so firmly that a future age will not destroy our work. We cannot build so gloriously with it that a future age will not condemn us as we do the Despots of Italy. The question is whether we are going to throw our weight for or against the present system – whether we are going as a nation to tolerate it and let the future overthrow it or whether we are going to try to take care of it ourselves.

Commercial Machiavellianism Is Our Great Problem Today

There are many signs that we are choosing to do our own housecleaning, that we have intention of going down to history along with Cesare Borgia and Alexander VI, the Monks of the Inquisition and Count-Metternich; that we are recognizing frankly that commercial Machiavellianism is our great present-day problem.

The Most Effective Strategy Is to Expose the Machiavellian Principles Practiced by Businessmen Today

And if so, what is there to do about it ? The first and most effective work is to air the formula, drag it out into the light, put it down in black and white, state it exactly as it is and as our captains practice it. How many of the very men who practice the Machiavellian formula would be willing to stand by it in the open if it were put to them in its bald truth ? How many of them would openly put their names to the following creed ?

The Modern Machiavellian Creed

"Success is the paramount duty. It can be attained in the highest degree only by force. At times it requires violence, cruelty, falsehood, perjury, treachery. Do not hesitate at these practices, only be sure they are necessary for the good of the business and be very careful to insist upon them always as wise and kind and that they work together for the greatest good of the greatest number." We all know that there is scarcely one of them so hardened that he would not pale at the thought of signing that creed and yet it is constructed substantially out of their own words as spoken at one time or another on the witness-stand.

A System Which Requires That Men Sell Their Souls for Worldly Glory

The truth is the Machiavellian formula carries its own death potion with in. It cannot stand the light. It is only strong when is out of sight – when it is unuttered. Today, as four hundred years ago, state it bluntly and men disown it. Why was Machiavelli repudiated by Italy as soon as the *Prince* was published? Why has his name remained to this day in all nations an adjective of reproach? Because he set forth uncondemned a system which demands that men sell their souls for worldly glory. And never in any age, blind and hard and temporizing as men may have been, have they been fling to admit aloud that it pays to buy wealth or power or glory at the cost of the soul. They are willing to practice the formula so long as they can avoid hearing it; those who profited by their success have been willing to support them so long as they could deaden their intellects by repeating "judge not lest ye be judged," but when it came to defending the Machiavellian creed aloud, they dared not do it.

Truth Is the Cure for Commercial Machiavellianism

And herein lies our safety. The truth, nothing but the truth, ugly and cruel and relentless as it may be, is the cure for commercial Machiavellianism. ("Commercial Machiavellianism," McClure's Magazine, Vol. XXVI, March, 1906, No. 5, pp. 453-463.)

ii. The Development of the European Banking System Throughout the World

A World System of Financial Control in Private Hands Able to Dominate the Political System of Each Country and the Economy of the World As A Whole

"... [T]he powers of financial capitalism had another far-reaching aim, nothing less than to create a world system of financial control in private hands able to dominate the political system of each country and the economy of the world as a whole. This system was to be controlled in a feudalist fashion by the central banks

of the world acting in concert, by secret agreements arrived at in frequent private meetings and conferences. The apex of the system was to be the Bank for International Settlements in Basle, Switzerland, a private bank owned and controlled by the world's central banks which were themselves private corporations. Each central bank, in the hands of men like Montagu Norman of the Bank of England, Benjamin Strong of the New York Federal Reserve Bank, Charles Rist of the Bank of France, and Hjalmar Schacht of the Reichsbank, sought to dominate its government by its ability to control Treasury loans, to manipulate foreign exchanges, to influence the level of economic activity in the country, and to influence cooperative politicians by subsequent economic rewards in the business world.

"In each country the power of the central bank rested largely on its control of credit and money supply. In the world as a whole the power of the central bankers rested very largely on their control of loans and of gold flows.... [T]hese central bankers were able to mobilize resources to assist each other through the B. I. S., where payments between central banks could be made by bookkeeping adjustments between the accounts which the central banks of the world would keep there. The B. I. S. as a private institution was owned by the seven chief central banks and was operated by the heads of these, who together formed its governing board. Each of these kept a substantial deposit at the B. I. S., and periodically settled payments among themselves (and thus between the major countries of the world) by bookkeeping in order to avoid shipments of gold. They made agreements on all the major financial problems of the world, as well as on many of the economic and political problems, especially in reference to loans, payments, and the economic future of the chief areas of the globe.

"The B. I. S. is generally regarded as the apex of the structure of financial capitalism whose remote origins go back to the creation of the Bank of England in 1694 and the Bank of France in 1803.

"... It must not be felt that these heads of the world's chief central banks were themselves substantive powers in world finance. They were not. Rather, they were the technicians and agents of the dominant investment bankers of their own countries, who had raised them up and were perfectly capable of throwing them down.

"The substantive financial powers of the world were in the hands of these investment bankers (also called 'international' or 'merchant' bankers) who remained largely behind the scenes in their own unincorporated private banks. These [bankers] formed a system of international cooperation and national dominance which was more private, more powerful, and more secret than that of their agents in the central banks. This dominance of investment bankers was based on their control over the flows of credit and investment funds in their own countries and throughout the world. They could dominate the financial and industrial systems of

their countries by their influence over the flow of current funds through bank loans, the discount rate, and the rediscounting of commercial debts; they could dominate governments by their control over current government loans and the play of the international exchanges.

"Almost all of this power was exercised by the personal influence and prestige of men who had demonstrated their ability in the past to bring off successful financial coupes, to keep their word, to remain cool in a crisis, and to share their winning opportunities with their associates. In this system the Rothschilds had been preeminent during much of the nineteenth century, but, at the end of that century, they were being replaced by J. P. Morgan whose central office in New York, although it was always operated as if it were in London (where it has, indeed, originated as George Peabody and Company in 1838). Old J. P. Morgan died in 1913, but was succeeded by his son of the same name (who had been trained in the London branch until 1901), while the chief decisions in the firm were increasingly made by Thomas W. Lamont after 1924. " (Carroll Quigley, *Tragedy and Hope: A History of the World in Our Time*, New York: The Macmillan Company, 1966, pp. 324, 326-327.)

Ignorance of the Nature of Coin, Credit and Circulation Lead to Perplexities in America

"All the perplexities, confusion, and distress in America arise, not from defects in the Constitution or confederation, not from the want of honor or virtue, so much as from downright ignorance of the nature of coin, credit and circulation." (John Adams, Letter to Thomas Jefferson, 1787. Quoted in Robert L. Owen, *National Economy and The Banking System of the United States*, Senate Document No. 23, 76th Congress, 1st Session, Washington, D. C.: Government Printing Office, 1939, p 99.)

Banking Institutions Are More Dangerous to the Liberties of People Than Standing Armies

"If the American people ever allow the banks to control the issuance of their currency, first by inflation and then by deflation, the banks and corporations that will grow up around them will deprive the people of all property until their children will wake up homeless on the continent their fathers occupied. The issuing power of money should be taken from the banks and restored to Congress and the people to whom it belongs. I sincerely believe the banking institutions are more dangerous to our liberties than standing armies. Already they have raised up a moneyed aristocracy that has set the Government at defiance." (Thomas Jefferson. Quoted in Olive Cushing Dwinell, *The Story of Our Money*, p. 84 and Robert L. Owen, *National Economy and the Banking System of the United States*, p. 99.)

The Importance of Controlling the Issuance of Money in a Nation-State

"Permit me to issue and control the money of a nation, and I care not who makes its laws." (Mayer Anselm Rothschild, 1790. Quoted in Robert L. Owen, *National Economy and the Banking System of the United States*, p. 99.)

The European Banking System is Based on Debt

"Let the American people go into their debt-funding schemes and banking systems, and from that hour their boasted independence will be a mere phantom." (William Pitt, Chancellor of the Exchequer, England, 1791. Quoted in T. Cushing Daniel, *Real Money Verses False Money – Bank Credits*, p. 32.)

The European Banking System Is Designed to Enslave Individuals, Communities and Nations

Of all aristocracies, none more completely enslave a people than that of money; and in the opinion of your committee, no system was ever better devised so perfectly to enslave a community as that of the present mode of conducting banking establishments. Like the siren of the fable, they entice to destroy. They hold the purse-strings of society, and by monopolizing the whole of the circulating medium of the country, they form a precarious standard by which the property in the country – homes, lands, debts and credits, personal and real estate of all description – are valued, this rendering the whole community dependent upon them; proscribing every man who dares to expose their unlawful practices." (Report of the Legislative Committee, State of New York, 1818. Quoted in T. Cushing Daniel, *Real Money Verses False Money – Bank Credits*, p. 33.)

The European Banking System Is Designed to Build Up a Money Aristocracy

"There never has been devised by any man a plan more specious by which labour could be robbed of the fruit of toil than the banking system. The people not only take bank paper as money, paying interest on it, but when banks suspend, the people lose the discount while the bankers gain it.

"The people wonder why financial panics occur so frequently. I can tell them why. It is to the interests of the bankers and brokers that they should occur. It is one of the specious methods by which these despotic and utterly useless knaves rob the producing, manufacturing and mercantile classes of their honest earnings. It is one of the chief plans by which this infamous ring is riveting the chains of slavery upon the limbs of labour. It is one of the chief means adopted to build up a money aristocracy that shall live in idle luxury and ape the pretentious airs of European nobility." (Daniel Webster. Quoted in Olive Cushing Dwinell, *The Story of Our Money*, pp. 139-140.)

The Elite Will Support the European Banking System Throughout the World

"The few [elite] who can understand the system (check money and credits) will either be so interested in its profits, or so dependent on its favors, that there will be no opposition from that class, while on the other hand, the great body of the people mentally incapable of comprehending the tremendous advantage that capital derives from the system, will bear its burdens without complaint, and perhaps without even suspecting that the system is inimical to their interests. (Letter written by the Rothschild Brothers of London, England to a New York firm of bankers, June 25, 1863. Quoted in Robert L. Owen, *National Economy and the Banking System of the United States*, pp. 99-100.)

Under the European Banking System Wealth is Aggregated In the Hands of the Elite

"Yes, we may congratulate ourselves that this cruel war is near the close, but I see in the future a crisis approaching that unnerves me and causes me to tremble for the safety of my country. As a result of the war corporations have been enthroned, and an era of corruption will follow and the money power of the country will endeavor to prolong its reign by working on the prejudices of the people until wealth is aggregated in a few hands and the Republic is destroyed. I feel at this moment more anxiety for the safety of my country than ever before, even in the midst of war." (Abraham Lincoln. Quoted in Olive Cushing Dwinell, *The Story of Our Money*, p. 202.)

National Debts Are a Form of Taxation

"National debts paying interest are simply the purchase by the rich of the power to tax the poor." (John Ruskin. Quoted in T. Cushing Daniel, *Real Money Verses False Money – Bank Credits*, p. 41.)

Wall Street Investment Banker Predicts Panic in America

"Unless we have a central bank with adequate control of credit resources, this country is going to undergo the most severe and far-reaching money panic in its history." (Jacob Schiff, Senior Partner, Kuhn, Loeb Co. Speech, Chamber of Commerce, New York, 1907.)

The U. S. Government is a Foster Child of Special Interests

"Suppose you go to Washington and try to get at your government. You will always find that while you are politely listened to, the men really consulted are the big men who have the biggest stakes – the big bankers, the big manufacturers, the big masters of commerce.... Every time it has come to a critical question, these gentlemen" have been yielded to, and their demands treated as the demands that should be followed as a matter of course. The government of the United States is a

foster child of special interests." (Woodrow Wilson, 1912, Quoted in *The Nation*, November 19, 1990, p. 589.)

The Greatest Monopoly in America

"The greatest monopoly in this country is the money monopoly. So long as that exists, our old variety and freedom and individual energy of development are out of the question. A great industrial nation is controlled by its system of credit. Our system of credit is concentrated. The growth of the nation, therefore, and all our activities are in the hands of a few men.... This is the greatest question of all; and to this, statesmen must address themselves with an earnest determination to serve the long future and the true liberties of men. " (Woodrow Wilson, Quoted in Louis D. Brandeis, *Other People's Money and How Bankers Use It*. New York: Frederick A. Stokes. Co., 1932 edition, pp. 1-2.)

The Money Trust is Not a Myth

"The control of credit also became dangerously centralized.... The financial resources of the country are [controlled by] small groups of capitalists.... The great monopoly of this country is the monopoly of big credits.... A great industrial nation is controlled by its system of credit. Our System of credit is privately concentrated. The growth of our nation, therefore, and all our activities, are in the hands of a few men.... This Money Trust ... is not a myth.... " (Woodrow Wilson, Quoted in Carter Class, *Adventures in Constructive Finance*, pp. 77-79.)

The Power of International Bankers and Monopolists

"Don't deceive yourselves for a moment as to the power of the great interests which now dominate our development. They are so great that it is almost an open question whether the Government of the United States can dominate them or not.

"Monopoly means atrophy of industry. If monopoly persists, monopoly will always sit at the helm of government. I do not expect to see monopoly restrain itself. If there are men in this country big enough to own the government of the United States, they are going to own it; what we have to determine now is whether we are big enough, whether we are men enough, whether we are free enough, to take possession again of the Government which is our own. We haven't had free access to it; our minds have not touched it by way of guidance, in half a generation.... " (Woodrow Wilson, Quoted in Olive Cushing Dwinell, *The Story of Our Money*, no date. p. 190.)

Federal Reserve Act Established the Most Gigantic Trust on Earth

"This Act [Federal Reserve Act] establishes the most gigantic trust on earth. When the President [Woodrow Wilson] signs this bill, the invisible government by the monetary power will be legalized. The people may not know it immediately,

but the day of reckoning is only a few years removed. The trusts will soon realize that they have gone too far for their own good. The people must make a declaration of independence to relieve themselves from the monetary power. This they will be able to do by taking control of Congress. Wall Streeters could not cheat us if you Senators and Representatives did not make a humbug of Congress. The division of Congress into political parties is a crime. The main object of the bosses in both political parties is to get offices and grant special favors at the people's expense. This is inherently a national government, and that is why party government is unsuccessful in dealing with economic problems. If we have a people's Congress, there would be stability. The greatest crime of Congress is its currency system. The worst legislative crime of the ages is perpetrated by this banking and currency bill. The caucus and the party bosses have gain operated and prevented the people from getting the benefits of their own government." (Congressman Charles A. Lindbergh, *Congressional Record*, December 23, 1913.

The Elite Financial Oligarchy is Dominated by International Investment Bankers

"The dominant element in our financial oligarchy is the investment banker. Associated banks, trust companies and life insurance companies are his tools. Controlled railroads, public service and industrial corporations are his subjects. Though properly but middlemen, these bankers bestride as masters America's business world, so that practically no large enterprise can be undertaken successfully without their participation or approval. These bankers are, of course, able men possessed of large fortunes; but the most potent factor in their control of business is not the possession of extraordinary ability or huge wealth. The key to their power is Combination – concentration intensive and comprehensive – advancing on three distinct lines:

"*First:* There is the obvious consolidation of banks and trust companies; the less obvious affiliations – through stockholdings, voting trusts and interlocking directorates – of banking institutions which are not legally connected; and the joint transactions, gentlemen's agreements, and 'banking ethics' which eliminate competition among the investment bankers.

"*Second:* There is the consolidation of railroads into huge systems, the large combinations of public service corporations and the formation of industrial trusts, which, by making businesses so 'big' that local, independent banking concerns cannot alone supply the necessary funds, has created dependence upon the associated New York bankers.

"But combination, however intensive, along these lines only, could not have produced the Money Trust – another and more potent factor of combination was added.

Third: Investment bankers, like J. P. Morgan & Co., dealers in bonds, stocks and notes, encroached upon the functions of the three other classes of corporations with which their business brought them into contact. They became the directing power in railroads, public service and industrial companies through which our great business operations are conducted – the makers of bonds and stocks. They became the directing power in the life insurance companies, and other corporate reservoirs of the people's savings – the buyers of bonds and stocks. They became the directing power also in banks and trust companies – the depositaries of the quick capital of the country – the life blood of business, with which they and others carried on their operations. Thus four distinct functions, each essential to business, and each exercised, originally, by a distinct set of men, became united in the investment banker. It is to this union of business functions that the existence of the Money Trust is mainly due.

The development of our financial oligarchy followed, in this respect, lines with which the history of political despotism has familiarized us: – usurpation, proceeding by gradual encroachment rather than by violent acts; subtle and often long-concealed concentration of distinct functions, which are beneficent when separately administered, and dangerous only when combined in the same persons. It was by processes such as these that Caesar Augustus became master of Rome...." (Louis D. Brandeis, *Other People's Money And How Banker Use It*, New York: Frederick A. Stokes 1914, 1932 edition, pp. 4-6.)

International Investment Bankers Devise An Ingenious System to Use Other People's Capital to Enrich Themselves

"The goose that lays golden eggs has been considered a most valuable possession. But even more profitable is the privilege of taking the golden eggs laid by somebody else's goose. The investment bankers and their associates now enjoy that privilege. They control the people through the people's own money. If the bankers' power were commensurate only with their wealth, they would have relatively little influence on American business. Vast fortunes like those of the Astors are no doubt regrettable. They are inconsistent with democracy. They are unsocial. And they seem peculiarly unjust when they represent largely unearned increment. But the wealth of the Astors does not endanger political or industrial liberty. It is insignificant in amount as compared with the aggregate wealth of America, or even of New York City. It lacks significance largely because its owners have only the income from their own wealth. The Astor wealth is static. The wealth of the Morgan associates is dynamic. The power and the growth of power of our financial oligarchs comes from wielding the savings and quick capital of others. In two of the three great life insurance companies the influence of J. P. Morgan & Co. and their associates is exerted without any individual investment by them whatsoever. Even in the Equitable, where Mr. Morgan bought an actual majority of all the outstanding stock, his investment amounts to little more than

one-half of one percent of the assets of the company. The fetters which bind the people are forged from the people's own gold.

"But the reservoir of other people's money, from which the investment bankers now draw their greatest power, is not the life insurance companies, but the banks and the trust companies. Bank deposits represent the really quick capital of the nation. They are the life blood of businesses. Their effective force is much greater than that of an equal amount of wealth permanently invested. The 34 banks and trust companies, which the Pujo Committee declared to be directly controlled by the Morgan associates, held \$1,983,000,000 in deposits. Control of these institutions means the ability to lend a large part of these funds, directly and indirectly, to themselves; and what is often even more important, the power to prevent the funds being lent to any rival interests. These huge deposits can, in the discretion of those in control, be used to meet the temporary needs of their subject corporations. When bonds and stocks are issued to finance permanently these corporations, the bank deposits can, in large part, be loaned by the investment bankers in control to themselves and their associates; so that securities bought may be carried by them, until sold to investors. Or these bank deposits may be loaned to allied bankers, or jobbers in securities, or to speculators, to enable them to carry the bonds or stocks. Easy money tends to make securities rise in the market. Tight money nearly always make them fall. The control by the leading investment bankers over the banks and trust companies is so great, that they can often determine, for a time, the market for money by lending or refusing to lend on the Stock Exchange. In this way, among others, they have power to affect the general trend of prices in bonds and stocks. Their power over a particular security is even greater. Its sale on the market may depend upon whether the security is favored or discriminated against when offered to the banks and trust companies, as collateral for loans.

"Furthermore, it is the investment banker's access to other people's money in controlled banks and trust companies which alone enables any individual banking concern to take so large part of the annual output of bonds and stocks. The banker's own capital, however large, would soon be exhausted. And even the loanable funds of the banks would often be exhausted, but for the large deposits made in those banks by the life insurance, railroad, public service, and industrial corporations which the bankers also control..." (Louis D. Brandeis, *Other People's Money And How The Bankers Use It*, New York: Frederick A. Stokes, 1914, 1932 edition, pp. 16-21.)

Government by Oligarchy

"Now to bring about government by oligarchy masquerading as democracy, it is fundamentally essential that all authority and control be centralized in our National Government." (Franklin D. Roosevelt, *The Public Papers and addresses of Franklin D. Roosevelt*, Volume I, *The Genesis of the New Deal*, 1928-1932, Radio

Address on States Rights, March 2, 1030, New York: Random House, 1938, pp. 569-575.)

A Financial Element Controls the United States Government

"The real truth of the matter is, as you and I know, that a financial element in the larger centers has owned the Government ever since the days of Andrew Jackson – and I am not wholly excepting the Administration of W. W. [Woodrow Wilson] The country is going through a repetition of Jackson's fight with the Bank of the United States – only on a far bigger and broader basis." (Franklin D. Roosevelt, Letter to Col. Edward Mandell House, November 21, 1933, *F.D.R.: His Personal Letters*, New York: Duell, Sloan & Pearce, 1950, p.373.)

The Masters of Industry and Commerce

"Whoever controls the volume of money in any country is absolute master of all industry and commerce." (President James A. Garfield, Quoted in a speech by T. David Horton, 'Monetary Crisis: Its Threat to Liberty,' *Congressional Record*, May 11, 1972.)

Concentration of Political Power in the United States

"During these times of great concern about the nation's political institutions, the press and the populace-at-large have expressed growing discontent about the vague, informal concentrations of political power that so often appear to exercise a hold on the working of our democracy. Whatever the genesis of such concentrations, they seem to have a number of characteristics in common: They are in part invisible, they are self-perpetuating, and they deal in a kind of power that never was mentioned in the Constitution. Some of these entities are quite real... " (John Thackray, *Institutional Investor*, May 1974, p. 58.)

The United States is Dominated by a Hierarchy of Wealthy Families

"The United States is owned and dominated today by a hierarchy of its sixty richest families, buttressed by no more than ninety families of lesser wealth. Outside this plutocratic circle there are perhaps three hundred and fifty other families, less defined in development and in wealth, but accounting for most of the incomes of \$100,000 or more that do not accrue to members of the inner circle.

"These families are the living center of the modern industrial oligarchy which dominates the United States, functioning discreetly under a de jure democratic form of government behind which a de facto government, absolutist and plutocratic in its lineaments, has gradually taken form since the Civil War. This de facto government is actually the government of the United States – informal, invisible, shadowy. It is the government of money in a dollar democracy."

(Ferdinand Lundberg, *America's 60 Families*, New York: The Citadel Press, 1946, p. 3.)

Mere Executives for the Main Groups of Banking Capital

"It is a common popular error to suppose that men like Owen D. Young, of the General Electric Company; Walter S. Gifford, of the American Telephone and Telegraph Company; Thomas W. Lamont, of J. P. Morgan and Company; Albert H. Higgins, until recently head of the Chase National Bank; Alfred P. Sloan, Jr., of General Motors; and Walter C. Teagle, of the Standard Oil Company of New Jersey, are leaders in the entourage of great wealth. Such figures, carefully publicized, are merely executives for the main groups of banking capital that represent the golden dynasties. These men have no independent power; they do not speak for themselves any more than do actors on a stage." (Ferdinand Lundberg, *America's Sixty Families*, p. 32.)

Thomas Lamont – An Agent of the Invisible Directory of High Finance and Politics

"An extraordinarily complex and resourceful personality like Thomas W. Lamont, who has been the brains of the J. P. Morgan and Company throughout the postwar period and was a mentor of Woodrow Wilson ... as well as of President Herbert Hoover ... has exercised more power for twenty years in the Western Hemisphere, has put into effect more final decisions from which there has been no appeal, than any other person. Lamont, in short, has been the First Consul de facto in the invisible Directory of postwar high finance and politics, a man consulted by presidents, prime ministers, governors of central banks, the directing intelligence behind the Dawes and Young Plans." (Ferdinand Lundberg, *America's Sixty Families*, p. 32.)

Private Banking Partnerships

"The private banking partnerships and the informal alliance are the ramparts behind the dominant families. In order of importance these private banking partnerships are J. P. Morgan and Company; Kuhn, Loeb and Company; Brown Brothers Harriman and Company; Lehman Brothers; Dillon, Read and Company; Bonbright and Company (Morgan); Lazard Freres; J. and W. Seligman; Speyer and Company; Goldman Sachs and Company; Hallgarten and Company; and Ladenburg, Thalmann and Company." (Ferdinand Lundberg, *America's Sixty Families*, p. 34.)

Silent Economic Forces Control the Destiny of Man

"The destinies of man are being molded by silent economic forces, which it is folly to resist, and that it is only by acting with and not against them that he can hope to advance his fortunes.... It is unwise to neglect forces, the strength of which

you are unable to measure. The power of Central Banks in cooperation, on the scale contemplated in the formation of the Bank for International Settlements, has never yet been put to the test." (Sir Charles Addis, K.C.M.G., Director, Bank of England, *Journal of the Institute of Bankers*, Volume 3, 1930, pp. 247-254.)

The Powers Which Preside Over Nations

"It is strange that the powers which preside over the fate of nations should not have called into being such an institution [Royal Institute of International Affairs, London] as this long ago.... Not one of the great blessing for which we pray, the aspirations to which we give vent when we talk of the federation of the world and the parliament of man, not one of these things will come to us unsought." (J. R. Clynes, Member, British Parliament, The British Institute of International Affairs, July 1922, 32-33.)

Three Hundred Men Control the Destiny of Europe

"Three hundred men, all of whom know one another, direct the economic destiny of Europe and choose their successors from among themselves." (Walter Rathenau, Quoted in Quigley, *Tragedy and Hope*, p. 61.)

The Supreme Money Power

"The hinge of the whole situation was this: the government itself was not to be a substantive power in matters of Finance, but was to leave the Money Power supreme and unquestioned." (William Gladstone, 1852, Chancellor of the Exchequer, Quoted in Quigley, *Tragedy and Hope*, p. 61.)

Bankers Do Create Money

"I am afraid the ordinary citizen will not like to be told that the bankers can and do, create money... And they who control the credit of the nations direct the policy of Governments and hold in the hollow of their hands the destiny of the people." (Reginald McKenna, Quoted in *Tragedy and Hope*, p. 325.)

Corporate Monopolies Could Not Exist Without the Aid of Government

"Our thesis is that the current concentration level [of corporations] cannot be explained simply in terms of technological or economic imperatives. Monopoly is not the result of spontaneous generation or natural selection. On the contrary, it is often the outgrowth of unwise, discriminatory, privilege-creating governmental measures which throttle competition and restrict opportunity. It is the concomitant of unimaginative, shortsighted, or corrupt exercise of governmental power. Government today is, in many instances, a promoter of monopoly. It frequently puts together the very power concentrates which the anti-trust authorities are later called upon to break asunder. In short, government often supports, rather than

countervails, the forces making for concentration and monopoly. (Monopoly ... denotes an industry situation where a single firm or a small group of firms – by virtue of horizontal, vertical, or conglomerate integration – possess substantial economic power.)

"Given neutrality by the government, concentration could be reduced and competition enhanced in many industries. If government is to resist subversion by special interest groups, it must encourage a diffusion of power. If our goal is a free economy and a democratic society, government must maintain an arm's length relationship with business as well as other power concentrates. As Mr. Dooley so shrewdly observed: '... th' on'y thing to do is to keep pollyticians an' business men apart. They seem to have a bad infloonce on each other. Whiniver I see an alderman an' a banker walkin' down the street together I know th' Recordin' Angel will have to ordher another bottle iv ink.'

"... There appears to be under way a gradual but unmistakable retreat from the traditional anti-monopoly policy which for over three hundred years has prevailed in the Anglo-Saxon community toward an ambiguous and somewhat apologetic acceptance of monopoly as a necessary, even desirable, form of economic organization. This movement, long under way but proceeding slowly, has been accelerated in recent years, particularly since 1940, and now comes perilously close to the point of no return, where a reversal of direction becomes institutionally difficult, if not impossible, and the nation is committed irretrievably to a monopolistic way of life.

"This retrograde movement exacts a twofold price in terms of policy. With every backward step federal anti-trust policy becomes more debilitated, confused, and circumscribed, less vigorous in maintaining competition, less courageous in resisting the aggressions of monopoly; with every advance of monopoly toward greater economic power and more general social acceptance, the federal government becomes more subservient to it, more dependent on it, more disposed to favor it with grants of privilege, protection, and subsidy. The effect of these concomitant changes is to accelerate the decline of competition, on the one hand, and the aggrandizement of monopoly, on the other. The ultimate destination, if this trend continues, will be the abandonment of competition, both as an economic practice and as a social ideal, and the emergence of legalized private monopoly as the dominant form of economic organization. This is the familiar 'unification of political and economic power' exemplified by modern totalitarianism." (Walter Adams & Horace M. Gray, *Monopoly In America: the Government as Promoter*, New York: The Macmillan Company, 1955, pp. vii-viii, 1.)

Convergence of Capitalist and Communist Systems

"The Communists believe that the world will converge, but into an essentially communist form of government. In the West, on the other hand, the widespread

theory of convergence assumes that the fundamentally important aspects of the democratic system will be retained after America and Russia 'converge' at some future, indeterminate historical juncture. Although probably there will be more economic planning and social ownership in the West, the theory sees the Communist Party and its monopoly of power as the real victims of the historical process: both will fade away. Thus on closer examination it is striking to discover that most theories of the so-called convergence in reality posit not convergence but submergence of the opposite system. Hence the Western and the communist theories of convergence are basically revolutionary: both predict a revolutionary change in the character of one of the present systems. The Communists openly state it. In the West, it is implicit in the prevalent convergence argument.

"...The Soviet and the American political systems, each in its own way, have been highly successful. Because they have been successful, they are not likely to change drastically. Yet for the two systems to converge there would have to be a drastic alteration of course – in a historical sense, a revolutionary change of direction – in the path of development of one of them." (Zbigniew Brzezinski & Samuel P. Huntington, *Political Power: U.S.A./U.S.S.R. – Similarities and Contrasts – Convergence or evolution*. New York: The Viking Press, 1964, pp. 419, 136.)

The Creation of International Money

"... Central bankers have participated actively in the last years in the extensive discussions that have gone on concerning the next steps in the evolution of the international monetary system. These have focussed on the means of making the creation of international reserves a matter of international responsibility. I believe that sooner or later we shall have to take a major step forward in providing the machinery for creating reserves by deliberate collective action.... " (Louis Rasminsky, Governor, Bank of Canada, "The Role of the Central Banker Today," Per Jacobsson Lecture, November 6, 1966, Altieri Palace, Rome, Italy.)

Development of a New Imperial System to Govern the World

"The economic benefits of global integration will be unevenly spread and some areas will gain very little. The resulting inequality is likely to breed conflict. Moreover, even if multinational corporations distribute industrial production more evenly about the globe than is now the case, they will tend to centralize strategic decisions in regional coordinating centers and at global corporate headquarters. As Stephen Hymer put it, high level decision-making about what technologies and which areas to develop will be taken in a few key cities in the advanced countries, surrounded by regional sub-capitals, while the rest of the world will be confined 'to lower levels of activity and income, i.e., to the status of towns and villages in a new Imperial System....'" (Joseph Hye. Quoted in George W. Ball, ed., *Global*

Companies, the Political Economy of World Business, Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1975, p 162.)

Imposing International Rules on Nation-States

"The planners of the postwar international economic structure, under the leadership of the United States, were determined to move away from economic nationalism toward international cooperation and interdependence. To achieve these goals intergovernmental organizations were created with the authority to adopt rules of international behavior and to impose those rules on member states.

"These organizations were the International Trade Organization (ITO), the International Monetary Fund (IMF), and numerous others established for specific purposes, including the International Bank for Reconstruction and Development (or World Bank), the Food and Agricultural Organization (FAO), and the International Labor Organization (ILO). The ITO was to be the international institution for trade relations. Because the U.S. Senate failed to ratify the Havana Charter, the ITO was never born. As an interim measure, a General Agreement on tariff and Trade (GATT) was hurriedly negotiated and concluded in November 1947. This general Agreement embodied most of the principles that were to be the foundations of ITO. It is this 'interim measure' that provides again today the facilities for multilateral trade agreements and for the reduction of reciprocal tariffs among member countries. It is, thus, at the same time a multilateral agreement and an institution.... (Pierre Lortie, *Economic Integration and the Law of GATT*, New York: Prague Publishers, 1975, p. viii.)

Shaping a System That Embraces the Entire Global Community Including Russian and China

"We have to seek cooperation with the communist states, pointing eventually to a political and ultimately even philosophical accommodation with them. The differences that divide us are the products of 19th century thought, increasingly less relevant to the conditions of the 20th, not to speak of the 21st century. But at the same time, we have to be aware of realistic limits to the scope of possible cooperation with communist states at this time in history. In my own view, we are neither historically or philosophically prepared to engage jointly in a global architectural effort. We still need to seek cooperation step by step, functionally and regionally, as opportunity permits...

"The moment may be right for some joint American-Soviet arrangements in the Middle East. Certainly in SALT the strategic relationship is being codified by the United States and the Soviet Union. And there is room for much more trade with the communist states.

"But when it comes to the large, immediate, architectural issues of the day, it seems to me that the first priority still is that of the trilateral relations. It is here

where the philosophical basis preconditions for cooperation surely exist. It is clear, it seems to me, that there is the opportunity for real architecture and initiative. I thus see, in the emerging world, our three regions still representing the more cooperative, the more vital center. I would hope that because of this we would fashion new or additional procedures for more effective consultations, for the shaping of joint initiatives for the central and global problems of our times. I would hope to see the emergence of new political caucuses spanning our trilateral regions in some existing international institutions. But I would argue that the focus must not be the preservation of the status quo, but arrangements which increasingly co-op and embrace the Third and Fourth Worlds in a cooperative endeavor.

"This will be a very prolonged process. The international system created in 1945 was, so to speak, created through an act of will and human initiative in a relatively restricted period of time. This was possible because one power had overwhelming might and influence, and others were closely associated with it. In contrast, a renovated international system will now require a process of creation – much longer, much more complex – a process in which prolonged negotiations will have to be engaged and developed. It will require a process which recognizes the need for global adjustment in wealth, while creating additional wealth. It will, in any case, be a slow process....The process will clearly be a long one, and one has to anticipate enormous difficulties along the way.

"Nonetheless, we confront today an era of extraordinary opportunity, and an era to which democracies particularly ought to look forward with confidence. For all of the travails of our time, this century has been one of unprecedented progress. As the beginning of this century, approximately 1% of the world's population lived in conditions above those of minimum human survival. Today, with a population three times higher, 30% of the world's population has reached that level, and modern democracies have pioneered much of that progress. In 1945, existing democracies shaped an international system which has been particularly efficient and desirable from the standpoint of trilateral democracies. Today the challenge which we ought to welcome is to shape a system which embraces the entire global community, and our trilateral regions can find a special opportunity in moving towards that end." (Zbigniew Brzezinski, *Trilogue*, New York: The Trilateral Commission, 1975, No. 7, p. 13.)

Toward A Global Convergence with Russia

"Humankind is entering an era in which ideological rigidities are giving way to the pragmatism of nation-state competition. It is an era of convergence. Not so much a convergence of capitalism toward communism; nor a convergence of communism toward capitalism. Rather, the convergence is toward a model of the National Security State in which traditional ideology is a secondary factor in government policy. It is a convergence toward a corporate elite rule based on national security logic rather than ideology.

"For reasons given above, including the danger of an abrupt change of self-image, both superpowers can be expected to continue to deny (for another five years or more) that this convergence is happening. Meanwhile, both have their isolated New Classes who, under the rubric of national security, make decisions that profoundly determine the lives of the people.

"Both have their masses locked out of the decision-making process under the same rubric. Both are corporate states dominated by corporate goals. Both give verbal homage to their principal philosophers of human liberation (Marx and Jefferson) while precluding most of the humanistic values of these philosophers from the criteria for public policy." (Gerald and Patricia Mische, *Toward A Human World Order – Beyond the National Security Straitjacket*, New York: Paulish Press, 1977, pp. 164-165.)

Time Table For New World Order

"The time frame is in the final quarter of the twentieth century....

"Within this time frame, three phases are generally projected as marking progressive development toward world order: consciousness raising, politicization and transformation. A general strategy progression can be seen in relationship to these phases:

"I. Consciousness Raising

"The main strategy objective in this first phase is to develop widespread public consciousness about the WHY, WHAT and HOW of world order. The major effort is to enable citizens and leaders to see that true national interest and security and true personal interest and security lie in a world security system. A central focus is on the straitjacket of the present National Security State system and the powerlessness it engenders. Also included, however, is an awareness of alternative world order scenarios...and the practical dimensions of multi-issue coalition strategies....

"II. Politicization

"In this phase the question of world order moves into the sphere of politics as a public issue of true national interest and security. Building on the general consciousness raised in the first phase, the main strategy effort here is to mobilize grass-roots coalitions into effective movements for political change. When possible, the focus is on catalyzing 'the people' as agents of change. In democratically closed societies, however, the actors would be the New Class of managers and technical elites.

"The political task is a double one: to demonstrate to political leaders that 'the people' declare ownership in the world-order movement by contributing their own

insights and preferences in the conceptualization of the functional agencies of a world-order system.

"III. Transformation

"This is the period in which the various components of the world-order system take concrete form. A major focus here is to develop the functional agencies of a world-order system and delegate effective global authority needed by these agencies to accomplish their functions.

"Obviously these three phases are not mutually exclusive. The processes of consciousness raising, politicization and transformation, to varying degrees, are all already in evidence and will continue to be operative throughout the next twenty to twenty-five years. It is a question of emphasis. Consciousness raising about the WHY, WHAT and HOW of world order – already begun in many countries – will be predominant in the late 70's and early 80's but continue through the late 80's and 90's. Similarly, the politicization processes, evidenced now in limited form, will strengthen in the 80's and continue into the 90's. Transformation of the present world system, is also a process that will be operative throughout the next decades." (Gerald and Patricia Mische, *Toward A Human World Order – Beyond the National Security Straitjacket*, pp. 278-280.)

Limitation of National Sovereignty

"Every international agreement which amounts to anything involves some limitation of national sovereignty and interdependence will in the long run relegate this over-glamorized term to its relatively minor order of importance." (Sir Eric Wyndharn-White, *Beyond Diplomacy: Decision-making in an Interdependent World*, Policy Papers, Washington, D. C.: The Atlantic Council of the United States, no date, p. 83.)

A Period of Transition in the International Banking System

"... There is not now in place a permanent and operable worldwide monetary system with strong institutionalized safeguards to cushion and counter balance major disruptions. It is important not to overstate the problem, because negotiations are underway to fashion the outline of a new system or systems...." (F. Robert Abboud, Chairman. First Chicago Corporation, *Institutional Investor*, December 1979, p. 51.)

Steps Toward a Global Monetary System

"The impact of the European Monetary System and the International Monetary Fund's special drawing rights substitution accounts on the structure of markets will not be clear for quite some time. Both of these developments represent steps toward a global monetary system. The diminution of national control implied by

these developments is widely acknowledged as an obstacle to their acceptance. Indeed, international economic integration in whatever form necessarily results in a loss of a measure of control over national markets and institutions...." (John G. Heimann, Comptroller of the U.S. Currency, *Institutional Investor*, December 1979, p. 136.)

America Has Lost Its Economic and Financial Independence

"More than two hundred years after the Declaration of Independence, the United States has lost its position as an independent power.... Out increasing dependence on foreign capital is not just an economic issue. It is also a security issue, as well as a political issue with major implications for foreign and domestic policy.... This country will not be able to deal politically with its economic problems until a simple, basic requirement is recognized: to recapture our lost financial independence." (Felix Rohatyn, "Restoring American Independence: *New York Review of Books*, February 18, 1988.)

Creating the Nucleus of a New World Economic Order

"The proposal I ask you to consider is that we begin to seek the ways and means of lowering all economic barriers between North America, Europe, and Japan – trade, investment, legal, and so forth – in order to begin creating the nucleus of a new world economic order that would include a harmonized world business system with agreed rules and procedures that transcend national boundaries. You, as political leaders, have the power to take the steps necessary to make the increasing de facto globalization of business the most creative, positive, and beneficial force it can be, rather than the source of new international conflict. I believe that if we can go down this road together, we will also establish the basis for a much more equitable sharing of the burdens, responsibilities, and cost of international leadership....

"During the Gulf War, U. S. President George Bush spoke about the need for a "new world order." What he meant by that was a new political and military – security order to deal with the challenges of the post-Cold -War period. Certainly we need that. But the world also needs a new economic order, focused on international economic security." (Akito Morita, Chairman, Sony Corporation. Open Letter to the G-7 Leaders – the Presidents and Prime Ministers of the United States, Japan, German, France, Britain, Italy, and Canada (*Atlantic Monthly*, June, 1993, pp. 88-89.)

Preparing the Global International System for the Millennium

"Never before have so many structural changes in the international system occurred simultaneously. Some elements are now global – for example, economics and communications – while politics remains confined to the nation-state or is reduced to ethnic units....

"Let me focus on three areas likely to present the greatest challenges in the next century: Asia, the Persian Gulf, and the transatlantic region encompassing the NATO countries and the territory of the former Soviet bloc.

"In Asia, China will emerge as an incipient superpower. When it reaches the per capita income of South Korea (about a third of ours), its GNP will be double that of the United States. Such an economic colossus is bound to have a major impact. China's vast market, reinforced by its growing military power, will, in the hands of skillful and determined leaders, provide a vehicle for growing influence....

"For the first time in its history, China is tied to the world economy and a global international system....

"Discussion about the Middle East tend to focus almost exclusively on the Arab-Israel issue. While it is demonstrably explosive, there exists an established and tested framework for dealing with it. Below the surface of the Gulf, however, lurk even more dangerous structural issues. There, states of very limited power possess the capacity to cause nearly infinite international damage. When, in 1973, the Gulf states found themselves in a position to raise oil prices by 387 percent in a three-month period, they triggered a 10-year financial and economic crisis that threatened the global economic and financial systems and undermined the governability of the industrial democracies.

"Today the consequences of a crisis in the Gulf are no less ominous. But the structure on which its stability depends is even more brittle. The two strongest nations – Iran and Iraq – are outlaw states....

"But if we can find no way to modify the building blocks in the Persian Gulf, we had better prepare ourselves for an inevitable blow-up....

"The return of Russia to a major international role will be another seminal event. Early in the next century, after many ups and downs, Russia is likely to have restored its central authority. It may well be closer to the political structures favored by Pinochet or Salazar than to a Western pluralistic system – though it will be freer than communism. Once a legal system is established and a measure of predictability introduced, the economy should recover as well.

"At that point, the nations bordering the Atlantic will have to get used to a far more assertive Russia. The task of the Atlantic Alliance will become to give Russia an opportunity to participate fully in the political constructions of the new millennium, while ensuring that its traditional nationalism does not spill across its borders....

"The enlargement of NATO to include the former Soviet satellites in Central Europe can provide the essential safety net for this task. At the same time a body for political cooperation embracing the key members of the Atlantic Alliance plus

Russia must also be created. The appropriate forum for this is the Organization for Security and Cooperation in Europe....

"Whatever my doubts about the suitability of economic sanctions for spreading democracy in Asia, I consider it essential to promote the democratic ideal by fostering close cooperation where it already exists, especially among the nations bordering the Atlantic and within the Western Hemisphere. Military conflict among these nations is nearly inconceivable. It is among the established democracies that we should reinforce the values and institutions we treasure. The Western Hemisphere Economic Free Trade Area ... and its ultimate merging into an Atlantic Free Trade Area are crucial steps toward realizing these goals.

"The American foreign policy challenge for the next millennium is different from anything in our previous experience.... In the period ahead our biggest challenge will be to help construct a system in which the rewards and penalties are conducive to a broader sense of global well-being...." (Henry A. Kissinger. *Newsweek*, January 27, 1997, pp. 74, 77-81.)

Foreword

iii. The Emerging System of Global Governance – A Review of Current Literature

Leading Futurist Believes That the U. S. Constitution is Obsolete and Should Be Replaced

"To the Founding Parents:

"You are the revolutionists dead. You are the men and women, the farmers, merchants, artisans, lawyers, printers, pamphleteers, shopkeepers, and soldiers who together created a new nation on the distant shores of America. You include the fifty-five who came together in 1787 to hammer out, during a broiling summer in Philadelphia, that astonishing document called the Constitution of the United States. You are the inventors of a future that became my present.

"That piece of paper, with the Bill of Rights added in 1791, is clearly one of the stunning achievements of human history. I, like so many others, am continually forced to ask myself how you managed – how you were able, in the midst of bitter social and economic turmoil, under the most immediate pressures – to muster so much awareness of the emerging future. Listening to the distant sounds of tomorrow, you sensed that a civilization was dying and a new one was being born.

"I conclude you were driven to it – were compelled, carried along by the tidal force of events, fearing the collapse of an ineffectual government paralyzed by inappropriate principles and obsolete structures.

"Seldom has so majestic a piece of work been done by men of such sharply divergent temperaments – brilliant, antagonistic, and egotistic men – men passionately committed to diverse regional and economic interests, yet so upset and outraged by the terrible 'inefficiencies' of an existing government as to draw together and propose a radically new one based on startling principles.

"Even now these principles move me, as they have moved countless millions around the planet. I confess it difficult for me to read certain passages of Jefferson or Paine, for example, without being brought to the edge of tears by their beauty and meaning.

"I want to thank you, the revolutionary dead, for having made possible for me a half-century of life as an American citizen under a government of laws, not men, and particularly for the precious Bill of Rights, which has made it possible for me to think, to express unpopular views, however foolish or mistaken at times – indeed, to write what follows without fear of suppression.

"For what I now must write can all too easily be misunderstood by my contemporaries. Some will no doubt regard it as seditious. Yet it is a painful truth I believe you would have quickly grasped. For the system of government you fashioned, including the very principles on which you based it, is increasingly obsolete, and hence increasingly, if inadvertently, oppressive and dangerous to our welfare. It must be radically changed and a new system of government invented – a democracy for the twenty-first century.

"You knew, better than we today, that no government, no political system, no constitution, no charter or state is permanent, nor can the decisions of the past bind the future forever. Nor can a government designed for one civilization cope adequately with the next.

"You would have understood, therefore, why even the Constitution of the United States needs to be reconsidered, and altered – not to cut the federal budget or to embody this or that narrow principle, but to expand its Bill of Rights, taking account of threats to freedom unimagined in the past, and to create a whole new structure of government capable of making intelligent, democratic decisions necessary for our survival in a new world.

"I come with no easy blueprint for tomorrow's constitution. I mistrust those who think they already have the answers when we are still trying to formulate the questions. But the time has come for us to imagine completely novel alternatives, to discuss, dissent, debate, and design, from the ground up, the democratic architecture of tomorrow.

"Not in a spirit of anger or dogmatism, not in a sudden impulsive spasm, but through the widest consultation and peaceful public participation, we need to join together to reconstitute America.

"You would have understood this need. For it was one of your generation – Jefferson – who, in mature reflection, declared: 'Some men look at constitutions with sanctimonious reverence and deem them like the ark of the covenant, too sacred to be touched. They ascribe to the men of the preceding age a wisdom more than human, and suppose what they did to be beyond amendment.... I am certainly not an advocate for frequent and untried changes in laws and constitutions . . . But I also know that laws and institutions must go hand in hand with the progress of the human mind.... As new discoveries are made, new truths disclosed, and manners and opinions change with the change of circumstances, institutions must advance also, and keep pace with the times.'

"For this wisdom, above all, I thank Mr. Jefferson, who helped create the system that served us so well for so long, and that now must, in its turn, die and be replaced.

"An imaginary letter . . . Surely in many nations there must be others who, given the opportunity, would express similar sentiments. For the obsolescence of many of today's governments is not some secret I alone have discovered. Nor is it a disease of America alone.

"The fact is that building a new civilization on the wreckage of the old involves the design of new, more appropriate political structures in many nations at once. This is a painful yet necessary project that is mind-staggering in scope and will no doubt take decades to complete.

"In all likelihood it will require a protracted battle to radically overhaul – or even scrap – the United States Congress, the Central Committees and Politburos of the Communist industrial states, the House of Commons and the House of Lords, the French Chamber of Deputies, the Bundestag, the Diet, the giant ministries and entrenched civil services of many nations, the constitutions and court systems – in short, much of the unwieldy and increasingly unworkable apparatus of supposedly representative governments.

"Nor will this wave of political struggle stop at the national level. Over the months and decades ahead, the entire 'global law machine' – from the United Nations at one end to the local city or town council at the other – will eventually face a mounting, ultimately irresistible, demand for restructuring.

"All these structures will have to be fundamentally altered, not because they are inherently evil, nor even because they are controlled by this or that class or group, but because they are increasingly unworkable – no longer fitted to the needs of a radically changed world.

"This task will involve multimillions of people. If this radical overhaul is rigidly resisted it may well trigger bloodshed. How peaceful the process turns out to be will depend on many factors, therefore – on how flexible or intransigent the

existing elites prove to be, on whether the change is accelerated by economic collapse, on whether or not external threats and military interventions occur. Clearly the risks are great.

"Yet the risks of not overhauling our political institutions are even greater, and the sooner we begin, the safer we all will be.

"To build workable governments anew – and to carry out what may well be the most important political task of our lifetimes – we will have to strip away the accumulated clichés of the Second Wave era....

"We need far better agencies to regulate out-of-control currencies. We shall need alternatives to – or complete transformations of – the IMF, the World Bank, COMECON, NATO, and other such institutions. We shall have to invent new agencies to spread the advantages and limit the side effects of technology. We must speed the construction of strong transnational agencies for governing outer space and the oceans. We shall have to overhaul the ossified, bureaucratic United Nations from the ground floor up...." (Alvin Toffler, *The Third Wave*, Bantam Books, New York, 1980, pp. 416-419, 432.) (See also Alvin & Heidi Toffler, *Creating a New Civilization: the Politics of the Third Wave*. Washington, D. C.: The Progress and Freedom Foundation. 1974, pp. 73-75.)

The International Banker Has Played An Important Role for Over Two Centuries

"In the last two centuries it is the financier far more than the artist or the industrialist whose influence has been unquestionable: the man who directly or indirectly finances princes. Like the priest or man at arms of earlier times, he gambles on the development of events and power and attempts to use his influence to bring about the outcome he desires. He supplies men of ambition with the material means to their ends, and in order to be sure of his due, seeks to predict what will be the state of the world at the point when he expects to recover his loan. However, his hopes are based on reason, which must lay the groundwork for the accuracy of his calculations: the financier is not a speculator. He does not gamble, he reasons. This has often been the cause of his ruin in the face of the madness of those in power.

"No doubt some will be surprised to see cropping up here in the forefront of history, in the narrow margin left between the actions of nations and the whims of tyrants, a galaxy of almost unknown people of great talent and strong character. They were almost always very rich, though not always very ethical, linked to each other in a close and almost dynastic network – a parallel aristocracy lodged at the head of every regime. It may also be something of a surprise to discover for better or worse, the Warburgs, Rothschilds, Schiffs, Lehmans, Melchoirs, Hambros and Mayers have played as great a role as the princes and politicians in our destiny –

not to mention the part played by the Bards, Fuggers, Morgans or Barings, or individuals like Abs, Monnet, Caccia or Rockefeller.

"These strange and enigmatic men of influence have always had to try to look far into the future, to imagine new sources of wealth, to get money into circulation so to prevent it becoming worthless in times of war. Sometimes they have been mistaken, deluded by their own unbounded ambition, and have had a hand in the ruin of their world. Occasionally, too, they have seen the arrival of a worse catastrophe than the one they had delayed – either because the reciprocal cancellation of debts and wealth required it, in hatred of the lender, or because reason was shattered by ideology. As pioneers of capitalist rationalism and founding witnesses of the merchant order, they are essential links in our history and a magnificent reflection of the relative powers of money and reason." (Jacques Attali, *A Man of Influence: Sir Siegmund Warburg, 1902-82*, London: Weidenfeld and Nicolson, 1986, pp. 5-6.)

British Merchant Banks Become Bankers to Europe and America

"London was then [1853] at the heart of Western capitalism and dominated world industry. Its bankers, insurers, shipowners and captains of industry supplied the country with raw materials and organized the export of textiles, machinery and capital. Britain produced more than half the world's industrial goods and the increasing earnings of its shipping fleet, its banks, insurers and merchants more than compensated for its external trade deficit which was worsening throughout the century. These surpluses were not invested in industry, however, but directly abroad and earned even more, to the point where income on capital alone came to balance the trade deficit. The surpluses fed the extensive need for capital of the woollen and cotton mills, the shipyards, steelworks, railways, paper mills and rubber manufacturers of the whole world.

"London's business centre, known as the City, became the major world foreign exchange warehouse. The pound attained the status of an international currency, even draining off savings from the Continent to finance the industrialization of faraway countries. The City consisted of many increasingly distinct professions: alongside the commercial banks, special departments or separate merchants banks were developing, lending over the long term and advising commercial concerns. In order to buy or sell British shares on the Stock Exchange, these banks had to go through the intermediary brokers and jobbers, although they could operate freely in foreign shares.

"The British merchant banks thus became bankers to the great of Europe and America: Barings, founded in 1762, was official financier not only to the imperial family and government of Russia, but to the whole of South America. The English Rothschilds fixed the world price of gold and financed most of the governments of Europe. Morgan Grenfell, founded in 1833, forged links with the United States

through the Morgan family which had emigrated there, and managed British investments in America. Hambros Bank, named after a family which had come from Altona at the beginning of the century, took up an interest in Scandinavia, where it had originated.

"Things were becoming organized. In 1844 a law introduced by Robert Peel gave the Bank of England a monopoly on the issue of banknotes, banned the creation of any other issuing institutions and defined the steps to be taken to maintain the country's gold reserves.

"Amsterdam, Hamburg and Paris received their share of the money from England, and thanks to this were able to finance ventures in Northern Europe, Germany and Russia. At this time also the United States saw the birth of firms specializing in long-term lending to companies and advice to shareholders, which took British money and drew off local savings. The first of these investment banks, the American form of merchant bank, was set up in 1826 in New York by Nathaniel Prime; the second, set up in 1830 in Baltimore was Alex Brown and Sons. The same year Vermilye and Co. made its appearance, and a little later Jay Cooke set up his bank in Philadelphia.

"During those years a number of German[s]... arrived in the United States to do business and some later became investment bankers, as for instance the three Lehman brothers – Henry, Emmanuel and Mayer – who went from Frankfurt to open a cotton-broking business first in Alabama, then in New Orleans and New York, before launching themselves into banking." (Attali, *A Man of Influence*, pp. 25-26.)

The Rise of Investment Banking in America

"In America the mid nineteenth century saw the first appearance of those who would be the leaders of investment banking, such as the Morgans who organized British investment in America, and others like Kidder Peabody. In addition, after the riots of 1848 a number of German[s]... left for America and became bankers alongside Speyer, Belmont, Lehman and Salinger who were already established there. At first they financed the federal government during and after the Civil War, then became a way station for capital coming from Europe to finance the development of the American continent.

"So it was that two brothers-in-law, Abraham Kuhn and Salomon Loeb, left Worms around 1850, to be wholesale textile merchants in Cincinnati. On 1 February 1867 they made their way to New York with the \$500,000 they had earned and set up a bank at 31 Nassau Street. It was a well-timed move: the Civil War had finished, the steelworks were built and the telegraph operated across the whole continent. The railways under construction opened up enormous sources of profit for the banks. The Union Pacific was progressing westwards and the Central Pacific eastwards, and the federal government put \$60 million at their disposal for

the purchase of land. The banks were needed to organize groups of investors to finance the rest of the operation, and there was much money to be made from forming 'syndicates' of potential lenders and charging commission on these loans.

"This led to some degree of specialization in certain sectors among the banks: Jay Cooke, J. P. Morgan and Kuhn Loeb made loans to railways and steelworks, while Lehmann Brothers and Goldman Sachs financed the distribution of goods. The first guaranteed placing was carried out in 1869 by Jay Cooke for a loan of \$2 million to the Pennsylvania Railroad. So as to pull in savings from Europe the American banks strengthened their agreements with London banks, for example, J. P. Morgan with Morgan Grenfell, Kidder Peabody with George Peabody, Kuhn Loeb with Rothschild.

"In the opposite direction, European banks began to establish offices in New York and Boston, and other German...bankers, attracted by American expansion, emigrated to these two cities; the Guggenheims, Morgenthau and Lewisohns all opened businesses with great expectations....Attali, *A Man of Influence*, pp. 31-32.)

International Banking Develops into a Dynastic Elite Based on Culture and Money

"Banks had by then [1930] reached the top of the social scale. Starting off amongst the commercial professions in the eighteenth century, and supporting industry during the nineteenth, they developed by the beginning of the twentieth century into a dynastic elite based on culture as well as money.

"It was primarily an elite of money: here was where the great fortunes of Europe were to be found – no longer only in cotton, railways industry or land, though Friedrich Krupp was still by far the richest German of the age, richer than the Emperor himself.

"However, it was also a cultural elite; as though this profession which used intelligence and watched for signs predisposed adepts towards the sophisticated use of wealth.

"In the end their taste for power led them to copy the style of the dynasties they served; firstly and most visibly by using their name as a means of marking out territory. Their alliances were therefore still very carefully studied: marriages were between banking families...in order to extend empires, avoid their break-up and keep business secrets within the narrowest possible circle. The rare departures from this rule always caused a sensation....

"However, wealth gave the young dynasties not power, but only influence over the men in power. Admittedly everywhere in Europe and in the United States investment rather than commercial bankers...were doing their best to play a direct political role. The Barings, the Gibbs, the Smiths, the Hottingers and the

Bleichroeders joined openly in the politics of the young democracies: as liberals to defend the opening up of international trade, conservatives to defend their wealth, reformers to bring about the mobility of capital and cultural and social modernization. Through their loans they did all they could to keep the economy going, striving to speed up growth so as to finance repayment, and unintentionally even causing a war to organize a moratorium on debts....

"Elsewhere on the old Continent the situation was different. The German banks increasingly financed their own industry, from M. M. Warburg to the Deutsche Bank, from Stein to the Berliner Handels-Gesellschaft, whether they were general banks or dealt only in investments, and whether they had one cashier's desk or five hundred. In France, too, the investment banks made direct loans to French companies, even though the Rothschilds or the Hottingers drew the main part of their income from financing foreign trade and the budget deficit. Austrian bankers financed the industry of the Ottoman Empire: Moritz de Hirsch, for example, financed the Orient Express from Vienna.

"The United States, still a debtor nation, attracted as much capital as possible from Europe, and with this capital its investment banks wielded enormous power in a country where money was already of major importance. John Pierpont Morgan had succeeded his father and set up a new subsidiary, Drexel, Morgan & Co. He financed the railways and organized General Electric and US Steel. At the time he was undoubtedly more influential in the development of America than the President of the United States himself. In 1901 a battle for control of Northern Pacific Railways brought him up against the other great Wall Street operator, Jacob Schiff. Each of them tried to buy shares from big holders. In five days the stock went from \$110 to \$1,000 and the whole Stock Exchange was in uproar. When Rockefeller sided with Morgan, he won and increased his enormous fortune. (Attali, *A Man of Influence*, pp. 48-50.)

Paul Warburg – A Prominent German Develops Plans for the Federal Reserve System

"At the beginning of the century the United States became a great power and the dollar a great currency. The latter was based on gold, even though the Gold Standard Act of 1900 did not completely exclude silver, with its limited striking, from the American monetary system.

"So, the same way that every nation which becomes a storehouse of goods soon becomes a storehouse of money, twenty years after its rise to industrial power America, making more profits than it could use at home, began to invest and lend its currency to companies or other countries. The investment banks of Boston and New York not only continued borrowing from Europe to lend to America, but also began to operate in the reverse direction.

"Kuhn Loeb, for example, was still importing a lot of European capital to finance American industry; in 1906 it borrowed \$48 million in France to finance the Pennsylvania Railroad and in 1909 was the intermediary through which a French group loaned \$5 million to the Southern Pacific. In order to do this, Schiff used his links with Rothschild and Warburg. However, in the reverse direction, Kuhn Loeb also invested American money in loans for Shell and for the governments of Sweden, Germany and Japan.

"At the time of this reversal of financial flows which was to last three-quarters of a century, the American banking system was still very rudimentary. There was no central organization; the banks, whatever their activity, set up anywhere they wanted to and their growing interconnection made their failures contagious. Since the 1880 crisis about twenty of the biggest banks in the country had made a habit of consulting together regularly to harmonize their policies. However, there was no mutual guarantee, and no control over the issuing of banknotes, so when banking panics broke out they led to numerous bankruptcies which it was difficult to limit.

"In place of this, Paul Warburg suggested to Jacob Schiff in 1903 the creation of a control system on German lines. On the eve of becoming an American citizen he published a short book, *Plan for a Central Bank*, in which he suggested – in the image of what had existed in the German Empire since 1875 – the creation of a Central Bank, serving as a mutual guarantee to the private banks, and owned in equal shares by the Government, the big private banks and about ten regional federal banks which would alone be authorized to issue banknotes, backed by gold and nothing else. His plan aroused much interest on Wall Street and in Washington and Paul gave many lectures on the subject in the United States. But he was only a rich German banker living six months of the year in New York. His plan was not put into effect.

"Everything changed in the autumn of 1907. The collapse of the Kinckerbocker Trust Co. and the threat hovering over Trust Company of America brought about a particularly severe crisis: the banks were accused of making too much money by giving ill-considered loans and of not having foreseen the crisis. Paul's plan became topical again.

"In 1910, at the age of forty-two and after many hesitations, he finally became an American citizen. That same year the Association of New York Bankers gave official support to his plan, which he was continuing to defend everywhere. Though the previous President, Theodore Roosevelt, had not consulted him, Nelson Aldrich, a senator from Rhode Island, saw him often and took an interest in his ideas. Aldrich, the father-in-law of J. D. Rockefeller, Jr. was an adviser to the current President Taft and chairman of the National Monetary Commission of which Paul [Warburg] was also a member. In addition, the financial situation in America was beginning to be problematical and the banks were gradually being placed under supervision.

"In 1912 the Monetary Trust Investigation Committee of the Senate investigated the activities of Kuhn Loeb, J. P. Morgan, Kidder, Lee Higginson and the National City Bank. Some states passed laws to control banks.

"In November 1912 President Wilson, only just elected against Taft and Roosevelt, asked Paul [Warburg] to draft a law based on his book, and was pleased with the result. He decided to submit it to the Senate as quickly as possible. Everything was settled at a secret meeting at the beginning of 1913 at Sea Island, Georgia, between Paul Warburg, the president of the National City Bank of New York and Senator Aldrich. The bill drafted by Paul was introduced to the Senate by Robert Owen and to Congress by a representative from Virginia, Carter Glass, and thus became the Owen Glass Act. Passed in the summer of 1913, it set up twelve regional reserve banks and one federal reserve bank in Washington.

"A bridge between Germany and the United States, Paul thus managed to organize the American banking system in German style. The main architect of this structure, he was proposed by Wilson for the chairmanship of the Federal Reserve Bank. But as a German ... only just naturalized, he declined this, and would accept only a vice chairmanship, though another chairman had not been appointed. Benjamin Strong, the son-in-law of J. Pierpont Morgan who died that same year, was appointed to the chairmanship of the regional bank of New York, immediate rival of the central bank." (Attali, *A Man of Influence*, pp. 52-54.)

International Bankers Finance Japanese War with Russia

"At the beginning of the century Japan was forcing the pace of its modernization. Robbed of its conquests in China in 1894, it attacked Russia on 8 February 1904 without declaring war. To the amazement of the Europeans, Japan then revealed itself as a modern military power, but in order to win it needed money and a vice-governor of the Bank of Japan and financial commissioner to the Japanese Government, Baron Korekiho Takahashi, was sent to London and New York in June 1904 to ask the bankers of Europe and America to subscribe to a loan to the imperial Japanese Government of L30 million sterling at 4.5 per cent. Jacob Schiff had been trying to arrange a financial blockade of the Tsar, whom he had called 'the enemy of humanity' since the programs of 1894, and agreed with pleasure to finance this war. That year he even refused to participate in a Wall Street loan to France for fear that the money might go to the Russians, who were great borrowers in Paris at that time. Jacob Schiff then wrote to Max Warburg to ask him to join in the loan to Japan. Max as always checked with the Ministry of Foreign Affairs that such a loan would not go against the foreign policy of Berlin, and noted in his diary: 'I did what every good banker would do in this case: I went to the Ministry of Foreign Affairs in Berlin.' He was immediately given the green light, as Krupp, who was then playing an extensive role in affairs of state, hoped that this participation in the loan would lead to orders for arms from Japan to Germany.

"Max then received Korekiho Takahashi, sent to him by Jacob [Schiff]. On 28 March 1905 he undertook to place £1 million of the loan. He immediately placed £900,000 in Germany, which made him big money, since M. M. Warburg earned a commission equal to 1.5 per cent of the amount of the loan.

"On 11 July of the same year, just as the war began to turn in its favour, Japan floated a second loan, this time of £30 million. M. M. Warburg, in association with the Deutsch Asiatische Bank, undertook to place one-third in Germany itself. It was a huge success: the loan was ten times oversubscribed. A few months later Japan's victory was complete and the Portsmouth treaty awarded her control of Manchuria and Korea.

"Max Warburg and Jacob Schiff then became officially appointed suppliers of capital to Japan. The following year John Schiff made a triumphal tour of the country and the daughter of Baron Takahashi went to live with the Schiffs in New York for several years. Takahashi himself later became Finance Minister, then Prime Minister before being assassinated in 1936.

"Max and Jacob [Warburg] also became industrial advisers to the great family groups in Japan. In 1906 Baron Mitsui, the owner of a large part of Japanese industry, went to Hamburg by the Trans-Siberian railway in order to meet Max. As family tradition has it, the conversation went like this:

"Mitsui: We are a great family with many business interests, and so are you. Tell me, how do you manage not to fight amongst yourselves?

"Max: To tell the truth we do fight among ourselves, all the time.

"Mitsui: I did not come all the way across Siberia to hear that!

"Max: Let's be serious. To avoid problems, I advise you to group all your family's activities into one holding company and to give control to a single authority. We Warburgs did this long ago, and it is working very well.

"Thus was born the Mitsui group, one of the foremost in Japan.... (Attali, *A Man of Influence*, pp. 54-55.)

Max Warburg Helps Finance Military Buildup of Germany

"Europe slid slowly towards another war, yet it was neither necessary nor inevitable. Russia, France and Britain became allies. Germany and Austria feared that Russia would carve up the Turkish Empire, where the nationalities were restive, to its own advantage. North and South Germany did not always have the same attitudes: the industrial capitalism of the Ruhr chose the prospect of war which could alone – it was thought-keep the factories working at full capacity. The more financial North, turned more towards the Atlantic, was hostile to war: Max

[Warburg] thought that a war would kill 'his' Germany and did his utmost to oppose the Ruhr in Berlin. However, the fact is that like the whole of German banking, Max himself was not without responsibility in the circumstances which were to lead to war. To keep up his profits he actually lent money to industry and to the state to finance armaments. (Attali, *A Man of Influence*, p. 59.)

The Reasons for World War I

"In 1912 the hostilities between Italy and the Ottoman Empire, and the first Balkan War, exercised both men and armies. Then the size of the forces on either side of the Rhine increased. From then on, Conrad von Hotzendorff, chief of staff of the Austrian army, and Moltke, who had just replaced Schlieffen at the head of the German army, wanted a quick war. They knew that Britain did not yet have an army worthy of the name, and that France had disturbingly been rebuilding its own for some time. Chancellor Bethmann-Hollweg was also on the side of those who wanted to wage war in Europe in order to gain territory, give work to industry and maintain the social order." (Attali, *A Man of Influence*, pp. 59-60.)

The Beginning of World War I

"In June 1914 all the armies of Europe were on the alert and the economies of the Continent were working only for them or through them. Peace was at the mercy of an incident, and that one should occur was in the interest of many. Max went to London three times, twice at the beginning of the month, then again on 27 June, after a discussion with the Chancellor and the Kaiser on 14 June in Hamburg on the best way to avoid an Anglo-German war. On 28 June the assassination in Sarajevo, Bosnia, of a liberal Austrian prince, Archduke Franz-Ferdinand, a nephew of the Kaiser, allegedly by a Serb, passed almost unnoticed. The next day, as he did every year, the Kaiser left for the Kiel regatta, the Chancellor was on holiday and Moltke was taking the waters at Carlsbad. However, still convinced of British neutrality, Bethmann-Hollweg and the German general staff thought to profit from the incident by launching a lightning attack on Serbia, then on Russia, supporting an Austrian response to the assassination to 'finish the Serbs'. However, the Austrians did not seem decided on a battle and it was difficult for Germany to declare war if the ally 'offended' by the outrage had not done so itself.

"At the end of July, a strange month of waiting with everything at stake, the Kaiser met Max once more in Kiel: 'Should we declare war or wait, Mr. Warburg?' 'Wait, Sire. Every year of peace strengthens Germany and gives us more means of winning. Waiting can only be beneficial.'

"Max knew then that war was inevitable, for there were too many pressures in favour of it and the Kaiser had weakened. He knew that 'his' Germany was almost certainly finished. Resignedly he cut back his operations and cashed in his securities, before the Stock Exchange fell as he predicted. On 28 July the cable link between Germany and the United States was cut. Max Warburg moved his London

representative, Pieter Vuyk, to Amsterdam. On the same day Austria, urged on by Bethmann-Hollweg, finally declared war on Serbia.

"The war began in confusion: Serbia believed it was supported by Russia, which in turn believed it had French support. On 30 July Russia mobilized the whole of its army, the Tsar having been convinced by his general staff that partial mobilization was impossible. Seeing this, Austria did the same on 31 July. That evening Jaures was assassinated at the Cafe du Croissant in Paris. The dice were rolling.

"The same day there was a rush for gold on all the European exchanges and currency rates fell. The Hamburg exchange was closed. The world's leading currencies suspended convertibility to gold and began to float: the barely established gold standard was thus inoperative. It would only be restored for a few short years long after this war.

"In Germany companies asked the state for a moratorium on their debts. On 1 August Max, [Warburg] with other banks, tried his best to calm the situation. But things had gone too far. That day, Germany declared war on Russia and on 3 August on France; on 5 August Austria declared war on Russia. At the beginning of August the Germans still believed that Great Britain would not enter the conflict against them. When on 12 and 13 August Paris and then London declared war on Austria, this was the beginning for the European Continent of what would become the First World War, with an absurd celebration of arms, the dismay of financiers, the misery of nations and, soon, the twilight of the eagles.

"The German press, largely controlled by Ruhr industrialists, mobilized public opinion and created a special association. This tried to obtain, from the banks and the Government, cheap loans and a moratorium on debts. On 6 August Max Warburg and other great bankers called to Berlin by the Chancellor opposed any general moratorium which they said would ruin the banks or require huge public spending to support them. Instead, Max proposed the establishment of banks specializing in 'war lending', that is with more flexible lending rules and lower rates than others. Bethmann took up the idea and imposed it on the Ruhr. Carl Melchior and Max Warburg set up the first bank of this kind, the Hamburgische Bank; others followed throughout Germany." (Atalli, *A Man of Influence*, pp. 60-61.)

International Bankers Finance Both Sides of World War I

"America was still benefiting from the war of others and did not yet wish to take sides: she was selling wheat, raw materials, machinery and arms to both sides. Her banks competed in ingenuity in lending money to whoever wanted it, in exchange for huge commissions. Even Kuhn Loeb, heavily committed to the German side, was attracted by the huge profits to be made and issued loans for the British Royal Dutch Petroleum and for the big French cities (Paris, Bordeaux,

Lyon and Marseilles) alongside the loans it continued to make to Germany and to the big American companies (Westinghouse, American Smelting and Refining Co., Baldwin Locomotive Works, US Leather Co., US Rubber Co., Western Union Telegraph)." (Attali, *A Man of Influence*, pp. 66-67.)

Warburg Bank Helps Finance World War I

"Never has our financial destiny been so closely linked to the political destiny of Germany. This has clearly demonstrated the invalidity of the idea that a private company can remain independent of the political and economic situation of the Empire in time of war. Probably no single German private bank has guarantee more German Empire loans than we have. From this point of view, we have certainly contributed to financing the war, particularly by giving our guarantee for purchases from neutral countries." (Max Warburg, Diary, quoted in Attali, *A Man of Influence*, p. 69.)

Development of an International Central Bank

"On 15 June 1919, even before the signature of the Treaty of Versailles, Max [Warburg] and Melchior returned to Hamburg disappointed, humiliated and worried to rebuild the drained bank. In June 1919, as Max von Baden has done in October 1918, Ebert asked Max and then Melchior to become Finance Minister in the Bauer Government. Each refused in order to return to work at M. M. Warburg which was then in great difficulty. They had to find employees, re-establish contact with clients and, even more urgent, obtain payment of overdue debts. This was almost impossible and Max was in anguish. As he had predicted in 1917, without new capital his bank was headed for failure. Where could he find money except in America? He therefore wrote to his two brothers to ask them to come and see him, and help him. Paul and Felix did not hesitate and came to Europe. Max arranged to meet them in Switzerland where he was sent by Scheidemann in July to request a loan for Germany from the Swiss Government and banks. The three brothers met in St. Moritz in August 1919 for the first time in six years. Max asked them for 6 million marks, a huge amount, to save the bank. Paul and Felix advised him not to be obstinate, but to close down the bank and join them in America.

"Germany is lost as you well know – you refused to sign at Versailles. Europe will go backwards and tip over into Communism. What are you staying for?"

'No. Look, we shall become a great bank again and Hamburg will be the new capital of industrial Germany.'

"They parted without coming to a decision. Felix went back to New York. Paul [Warburg] stayed on in Europe for some time, in search of a part to play in organizing the financing of European debt. For him this problem was likely to lead to a world catastrophe if it was not treated in the same way as the problem he had contributed to solving in America itself [Federal Reserve Bank]: instead of lending

to Europe over the short term, a sort of international central bank should be established, to organize these movements of capital in the form of long-term loans.

"He believed this would not be done without bringing in private as well as public funds, public and private banks. He went to Basel, then Amsterdam where at the beginning of October and partly on his initiative a group of British, French, American and German bankers and academics met for the first time since the war (among them [John Maynard] Keynes and Max Warburg). They discussed the coming reparations and their consequences for the European economy. Paul floated the idea of a bank specializing in financing the reparations, which would be used to revive international trade. Several institutions were to be born from this idea, including today's Bank for International Settlements and the World Bank.

"His plan was much discussed during the Amsterdam meeting, but without any immediate result. On 12 October Keynes, who was still there, telegraphed Melchior in Hamburg asking him to come and see him. On 15 October Melchior arrived and introduced Keynes to Paul Warburg. The next day all three went walking in the city, which Melchior knew well from the time when he had negotiated loans for Germany, then at war....

"The Amsterdam meeting greatly affected all those who took part in it. All the bankers present, seers of their world, saw the urgent need to link Germany with the Allies, put Europe back on its feet and get out of the mesh of short-term debts by consolidating them. (Attali, *A Man of Influence*, pp. 79-80.)

American Taxpayer's Dollars Used to Rebuild Europe

"America now wanted to help Germany, beginning to understand the dangers of her weakness. Since breaking the London agreement in December 1921, Germany had paid almost nothing, apart from the proceeds of the under-subscribed loan of April 1923. The Reparations Commission established by the Treaty of Versailles finally met on 30 November 1923 and chose Charles G. Dawes, an American banker from the Midwest, to rethink the reparations at a realistic level. It is true that at the beginning of 1924 monetary stabilization caused a return of confidence and the beginnings of German economic renewal. However, Schacht's monetary stringency limited bank lending, since he insisted that any new lending should be preceded by repayment of existing loans. Bankruptcies ceased. Unemployment replaced inflation and Germany still did not have the means of meeting the payments set in London.

"On 8 February 1924, when Schacht saw Charles G. Dawes for the first time, he explained that he was willing to pay reasonable amounts, but on condition that he did not have to borrow abroad on a short-term basis in order to do this. He therefore wished to encourage foreign investment in Germany and urge German companies to borrow abroad to bring in foreign exchange, which would again improve the economic situation. In the spring of 1924 the Dawes commission, after

three months' work, recognized that it was in the interests of the Allies that the German economy should recover, even if this meant agreeing to postpone or reschedule the payment of reparations: this had been the view of Max Warburg and John Maynard Keynes ever since Versailles. It had taken nearly five years for the Allies to accept it. Five years too long.

"In April Dawes proposed the granting of an initial loan from America of 800 million gold marks at 8 per cent in exchange for Allied control over the railways and the Reichsbank. The indemnity was still set at 132 million gold marks, but with annuities increasing from 1 to 2.5 billion; Germany was to pay this off over five years.

"Also in April 1924 M. M. Warburg and the International Acceptance Bank in New York put together some loans to German companies in rediscounted dollars. Among these was rediscounted loan for first \$5 million and then \$25 million to the Golddiskontbank, whose board Max joined. In the same month Hugo Stinnes died, leaving a huge group ranging from banking to steel and from cement to paper.

"The same year, a few months apart, the other European currencies still floating in search of a theoretical return to pre-war parities were hit by the previous year's German inflation.

"In France, despite the exchange control introduced in 1918 and strengthened in 1924, the victory of a left-wing alliance set off speculation against the franc, especially from Hamburg: M. M. Warburg's role in this has not been established.

"The Lazard and Morgan banks then financed counter-speculation, and by throwing its full weight into the battle the French Government managed to stabilize the exchange rate of the franc. In May the Hamburg speculators suffered such heavy exchange losses that in order to save companies who had speculated, Max Warburg had to arrange a support fund of £110,000, subscribed by the city's leading banks. A little later, in 1926, a government of national unity brought the value of the dollar in France down from 40 to 25 francs.

"On 30 August 1924, as provided for in the Dawes plan, a new law simplified and unified the German banking system under Allied protection: the Rentenbank was abolished and the Reichsbank again became the sole issuing institution, completely independent of the Government, with a ruling council consisting of seven Germans and seven foreigners. Max Warburg was appointed a member at the request of Schacht, whose friend and adviser he was gradually becoming. The bank's capital was 300 million gold marks. The reichsmark once more became the national currency, backed by gold. In fact the notes in circulation were only 40 per cent covered by the bank's reserves, and one-quarter by foreign exchange. Parity was set at one reichsmark, or one trillion paper marks, to 0.3583 grams of gold.

"The Dawes plan was ratified on 1 September 1924 by a vote of the new Reichstag, elected in May. The Ruhr was then evacuated by the Belgians and the French, and Germany was to live for five years on loans from America, reaching \$250 million a year. These loans were arranged by Dillon Read and the International Acceptance Bank in New York, Sullivan & Crownwell, headed by J. F. Dulles in the United States, and Schroder in London. Half of the money would go through the big three German banks: Deutsche Bank, Commerzbank and the Darmstadter Bank, and the rest through three investment banks, among them M. M. Warburg, which made a big profit from this. The greater part of these loans went to Krupp and Stinnes, into steel and coal. In order to issue the loans in dollars, arrange the bank syndicate and place the securities, the German and American banks set up a network of high-quality experts in Berlin and Hamburg." (Attali, *A Man of Influence*, pp. 88-89.)

Birth of the Bank for International Settlements in Basle

"Europe was now dependent on America to make ends meet. However, the US was not yet conscious of its responsibilities and the old continent was to pay dearly. Very dearly. As Michel Aglietta writes:

"...the replacement of British loans by American loans in order to support the fragile banking systems of Central Europe and Latin America put the latter at the mercy of a speculative wave set off by the purely nationalist monetary policy of the United States, a phenomenon which came about from 1928 onwards.'

"As for Britain, she was still clinging to her absurdly fixed parity.

"At the end of 1928 the Allies thought that the time had come to reopen the question of reparations, which weighed very heavily on Germany from then on. From February to June 1929 another conference in Paris brought together France, Great Britain, Belgium, Germany, Italy, Japan and the United States – Hoover had just arrive in the White House – to attempt to give a final ruling on the matter. Owen D. Young, number one at General Electric, was appointed chairman. Schacht, determined to secure the result that Germany should cease paying these excessive installments, came to Paris on 11 February 1929 to lead the German delegation himself, without however giving up his duties in Berlin.

"In April, in the name of the Allies, Young asked Germany to pay amounts even higher than those provided for by the Dawes plan. He proposed the creation of a sort of world bank to manage the loans needed to finance the reparations. Schacht accepted the principle, but not the amount. In the end there was agreement on a reduction of the reparations to 38 billion gold marks, payable in thirty-six annual installments – instead of the 132 billion of the Dawes plan and the London agreement – and on a mechanism for issuing international loans to pay for the reparations, to be organized by a new semi-public, semi-private international institution, to be called the Bank for International Settlements.

"What Paul [Warburg] had tried to do with his International Acceptance Bank was therefore now being carried out on a large scale. The plan was initialled by Young and Schacht in the name of Chancellor Muller on 7 June 1929, despite the furious opposition of Adolf Hitler.

"On 3 October 1929, the day Stresemann died, Max [Warburg] noted: 'This is a hard loss for Germany and for all those in search of a new and better world.' On the same day a committee chaired by the American banker Jackson E. Reynolds worked out the final form of the BIS. Its capital was to be guaranteed by the central banks of Germany, Belgium, France, Great Britain, Italy, a group acting for the Bank of Japan and a group of three American banks (J. P. Morgan & Co., the First National Bank of New York and the First National Bank of Chicago). Other central banks would be able to subscribe within two years. The following month in Rome, governors of the banks of signatory countries signed the constituent instrument for the BIS, which established itself in Basel. This was officially adopted at The Hague conference in January 1930, and France undertook to evacuate the left bank of the Rhine before the end of June of that year. The international inspections of Germany and the reparations commission of the Treaty of Versailles were abolished. On 11 March 1930 the Young plan was adopted by the Reichstag at the end of a stormy debate. On 17 May the BIS began its work, in the midst of the Great Crash.

"Many people then began to see what Paul had been trying to establish for more than ten years: a world central bank. Thus a week after it came into being the spirit and outlook of the BIS were outlined at a lecture in Paris by Jacques Rueff, a young and unknown French inspector of finance, then Financial Attache in London. He summed up:

"The bank spares the governments concerned from having to guarantee their foreign payments themselves, and to this end keeping the various reserves in foreign currencies required by these payments – reserves which would duplicate those of the issuing banks, set up with exactly the same object in view.... This brings us to the concept of a real 'BIS currency', freely convertible into any currency at that currency's rate of exchange. Following this surmise – lightly, as one travels in the realm of dreams – one can well imagine a time when the basis of central bank lending will consist only of gold or the undefined BIS currency. A true international currency will then exist." (Attali, *A Man of Influence*, pp. 98-100.)

Paul Warburg Predicts the U.S. Depression

"There was also euphoria in New York. Paul [Warburg] was almost alone in expecting a crisis. He thought that world debt was too great, with companies borrowing ever more in order to meet annual payments on earlier debt. In New York share prices and speculation raced ahead, and Paul knew that when money

goes for the short term rather than the long, the economy is in danger. Everyone was trying to speculate on stocks and shares: more than one million Americans were playing the market. In February almost \$10 billion were in speculative positions. The demand for speculative capital was such that interest rates went up to 9 per cent, but despite this rate, \$500 million worth of stock was still placed each month. So as to get in on the issue market, the commercial banks then increased their investment agencies across the country.

"Paul realized that his own efforts had done no more than postpone the day of reckoning and that a time would soon come when the general indebtedness of the country, worsened by speculation, would have to be paid for: whether by the debtors or the creditors.

"At the beginning of 1929, in the last annual report of the International Acceptance Bank, shortly before it became the International Manhattan Co., Paul wrote:

"The rise in stock exchange prices, in the majority of cases, bears no relationship to the growth of the companies, their assets or prospects of profit and if this orgy of uncontrolled speculation is not slowed down the final collapse will affect not only the speculators, but will cause a depression affecting the whole of the country.'

"He had said it all. Paul then warned his friends to get out of the market and sell their shares. Some did, among them Max and Felix, in part. Most sneered.

"The volume of trading on Wall Street reached a high point on 3 September. That month Max relaunched Warburg & Co. in Amsterdam with a capital of 5 million florins, to represent the interests of M. M. Warburg and those of the International Manhattan Co. of New York. Paul was appointed managing director. On 24 October Wall Street began to falter. Bank intervention held up prices for five days, but on 29 October they could no longer hold and collapsed: 16,419,000 shares changed hands. In ten days the market lost in total \$30 billion in value.

"After that 1930 was a nightmare year for American banks. Stuart, Merrill Lynch and Blyth scarcely suffered; but Kuhn Loeb, Goldman Sachs, Kidder Peabody and Lee Higginson almost had to stop payments. In September, 305 American banks were in liquidation; in October, 522." (Attali, *A Man of Influence*, pp. 100-101.

U.S. Government Helps Finance World War II

"On 2 December British reserves were exhausted, and Winston Churchill in 'one of the most important letters he ever wrote' sent Roosevelt an appeal for help: 'We need ships, planes and arms,' he wrote, 'and the time is coming when we shall no longer be able to pay.' On 10 December Jimmy Warburg wrote in the *New York*

Tribune that if the law forbade America to lend to Britain, she should give her the amounts she needed, and he campaigned for a positive answer to be given to the British requests. On 17 December Roosevelt replied to Churchill that one 'cannot refuse to lend a firehose to a neighbor whose house is on fire', and prepared to authorize loans to Britain. He only insisted that before borrowing anew Great Britain should repay its previous loans and that she should mobilize all her financial resources. Morgenthau, who feared that Britain was hiding some of her reserves, insisted that the British should assemble all their gold at the Cape, where an American naval vessel would come to pick it up. The British agreed. On 10 January 1941, in the greatest secrecy, the *Louisville* took on board £42 million worth of gold which arrived in the United States on 26 January....

"On 11 March 1941 ... Roosevelt decided to make a real increase in aid to Britain and have Congress pass the Lend-Lease Act. The idea had first come to Jean Monnet, who with Siegmund Warburg was undoubtedly one of the greatest men of influence of this century. The innovation was that since it was not possible to lend, one should lease. While Britain had only survived the last eighteen months by selling her securities, she now received semi-loans and even gifts to buy arms and equipment in America. However, before Lend-Lease was put into operation, wide negotiations took place between London and Washington on its terms. Lord Keynes represented Britain. Congress effectively required that before the Lend-Lease Act came into operation, all British assets in the United States should be considered as collateral for the new loans and that all previous loans – i.e. \$700 million – should be repaid before the new plan was implemented. In May Morgenthau even suggested to Keynes that he should ask the American Government for a loan of \$400 million to pay off the earlier British loans. With a presentiment of probable refusal by Congress, Keynes suggested instead that this loan should be granted not by the American state but by the Reconstruction Finance Corporation (RFC) created before the New Deal, which would be more discreet. On 10 June, in order to make this operation possible, a bill increased the resources of the RFC and authorized it to lend to foreign governments, without specifying which ones. Thus it was able to lend without over-ostentation \$425 million for fifteen years to the British Treasury, on the security of British assets in the United States. The conditions of use of the goods received under this agreement were discussed later....

"On 7 December 1941 the attack on Pearl Harbor was not a surprise to everyone. In London the United States' entry into the war was welcomed with both relief and irony: they have been waiting for this for too long. In New York the investment bankers – Morgan, Kuhn Loeb, Dillon Read – swept aside from public business by the New Deal, came back in force to finance the war economy. The American Government awarded \$175 billion worth of military contracts and the military-industrial complex developed around the banks. The Reconstruction Finance Corporation financed Lend-Lease for the whole of the American economy and spent up to \$55 billion. Some people in America, rather sketchily no doubt,

identified eight financial groupings then in control of the major part of the American industrial economy engaged in the war: the Du Pont group (General Motors, Du Pont, US Rubber), the Mellon group (Gulf Oil, Westinghouse), the Morgan group (United States Steel, General Electric, Kennecott Copper, ATT), the Rockefeller group (Standard Oil, Chase National Bank), the Kuhn Loeb group (all public services) and the Boston group (United Fruit, First National Bank of Boston). Even if this is a simplified list, it is not too far from reality.

"At that time the attitude of American capital was not without ambivalence, and its links with Germany remained important: thus even in 1942 some Americans set up a syndicate of banks in Vichy with some French and German nationals to operate in occupied Europe under the name Societe de Credit Intercontinental. Among these were the Banque d'Indochine, the Banque Schneider, the Syndicat des Assureurs, the DeutscheKreditbank and the French subsidiaries of Ford and IBM. However, America quickly restored order and the association rapidly fell apart. (Attali, *A Man of Influence*, pp. 154-157.)

Post War Planning by the Elite

"From October 1941 talk began about the management of the post-war world and each American military concession was exchanged for a political concession from Britain, or in other words the rest of the world....

"The two leading monetary plans which were to clash over the next two and half years were drawn up at the very beginning of 1942. The authors were respectively Harry Dexter White, Assistant Secretary of the American Treasury, and John Maynard Keynes.

"White in his 'Program for inter-Allied monetary action' proposed the creation of two institutions, an inter-Allied fund intended to stabilize exchange rates, and an inter-Allied bank, aimed at assisting reconstruction and the development of international trade: the idea was to link this bank's granting of loans to the establishment of liberal trade and monetary policies. Nothing was said of the mechanism by which the exchange rates would be regulated, nor of the nature of the exchange standard, though it was implicitly admitted that this could only be the dollar, with or without theoretical reference to gold.

"Keynes proposed a very different and extremely centralized system. In his 'Proposals for an International Monetary Union', he wrote that the 'ideal system would surely consist in the establishment of a supranational bank which would have with the national central banks a relationship similar to that which exists between each central bank and the subordinate banks'. As far as he was concerned, 'this world central bank with a supra-national status, escaping the gold standard as well as the hegemony of one currency over the others, should have all the attributes of a central bank, with a supra-national currency for settlements between central banks. This bank for central banks, known as 'the Union' would manage accounts

denominated in 'Bancor', an international currency defined in relation to gold; the member countries would receive 'Bancors' in exchange for their gold; balances would be repaid. In cases where authorized drawings were exceeded, the member country would be able to adjust its exchange rates in agreement with the Union and would have to take the measures of adjustment it recommended.'

"So began an extensive theoretical debate. But it was already certain that the American plan, which ensured dollar control of the international institutions, would be the winner.

"On 23 February 1942, two months after the German rout before Moscow, the British and the Americans undertook in a Mutual Aid Act to encourage free trade, without explicitly mentioning 'imperial preference'. In April 1942 White unveiled a more specific plan 'in favour of a United National Stabilization Fund and a Bank for Reconstruction and Development of the associated countries'. For him the fundamental point lay in the limitation of America's obligation as a creditor, and in its right, along with other creditors, to a blocking majority on any important decision, particularly in the matter of loans. Constituted by subscription, the Stabilization Fund would have the power to buy the currency of this or that country. It would be in control of the exchange rates at which transactions would be carried out, and would be able to impose adjustment measures; an exchange rate should only be altered when this proved necessary to correct imbalances; only countries with credit balances in gold would be able to benefit from Fund loans. According to Keynes, this new version of the White plan, though better than the first, still did not allow enough adaptation liquidity to what was needed, and again gave too much power to the Americans.

"In May 1942 Great Britain had to sell off its shares in the American armaments industry in order to pay the latest installments on its earlier loans. (Attali, *A Man of Influence*, pp.157-159.)

U.S. Taxpayers Provide Funds to Rebuild Europe

"In 1947 he [Siegmond Warburg] met George Ball, then still a lawyer, one of the Americans most interested by European questions, who would become a close friend and one of his main channels of influence in Washington at the time of the Kennedys. Siegmund [Warburg] did his utmost to convince all sides to use American aid to build a united Europe. Then came the Marshall plan, named after a general who had just failed in his mission to conciliate between Chang Kai-shek and Mao Tse-tung, and who in January 1947 had become Truman's Secretary of State in place of Byrnes. On 5 June in a speech at Harvard he put forward a plan for European reconstruction which a year later would take over from bilateral aid.

"At that time, in May 1947, the IMF made its first drawing, of \$25 million, or 5 per cent of its quota for France. Two other drawings of the same amount were carried out in June and July for the same country. However, this was in vain: on 25

January 1948 the first devaluation condemned by the IMF – because it was connected with the establishment of a two-tier exchange market – was that of the franc.

"On 28 June 1948 President Truman signed the bill authorizing under the Marshall Plan \$4 billion in loans annually and \$2 billion in different forms of aid to sixteen countries, and the Organization for European Economic Co-operation (OECD), set up six months previously, was to be in charge of managing this American aid.

"At the same time, the Bank for International Settlements was resuming its function as an agent for the distribution of American loans in Europe. Its former president, McKittrick, became vice-president of Chase National Bank – now Chase Manhattan Bank – and an adviser to Averell Harriman, then in charge of economic co-operation in Europe. Gold plundered during the war, valued at 3,740 tons, was paid back and the BIS was retained. (Attali, *A Man of Influence*, p. 182.)

A Global Financial System

"International finance is the pivot around which the world economy twists and turns, and it affects politics and economics in every nation. Money and capital markets around the world are part of a global financial system in which all firms and investors compete continually with their counterparts in other countries. Every day hundreds of billions of dollars in stocks, bonds, and currencies speed electronically from trading room to trading room in search of a higher rate of return, so that Singapore and Paris, or London and Panama, are financially as close as midtown Manhattan and Wall Street. These enormous capital flows have blurred the lines between national financial markets, and have changed the environment within which investors, managers, workers, and politicians operate.

"The United States is not immune to the rigors of this global financial integration." (Jeffrey A. Frieden, *Banking On The World: The Politics of American International Finance*, New York: Harper & Row, 1987, p. 1.)

International Bankers Promote Global Financial Integration

"Global financial markets are the centerpiece of the contemporary world economic world order, which was built largely by the United States in the aftermath of World War II. America's international bankers, indeed, led the charge toward today's global economic integration. In the 1950s, after twenty-five years of depression, war, and reconstruction, a few large banks from New York, Boston, Chicago, and San Francisco began to expand their foreign operations. The cautious early moves toward international financial openness were not controversial; the growing global banking system was barely noticed, for the United States was fully able to lead and manage world economic interaction...." (Jeffrey A. Frieden, *Banking On The World*, p. 2.)

Wall Street Becomes Banker to the World

"The First World War and its aftermath pulled the United States into the world economy with a vengeance. Wall Street became banker to the world, and American corporations set up shop all over Europe and Latin America. Nonetheless, the size of the American market and the insularity of American politics tempered the enthusiasm of many Americans for international adventures. The American political system was torn between 'internationalists' who wanted the United States to tap its potential for world economic and political leadership, and 'isolationists' content to steer clear of European entanglements and rely on America's traditional sphere of influence. After a brief flurry of Wilsonian engagement, the country beat a partial retreat during the 1920s and stayed out of the international political arena as much as possible – even as American bankers came to dominate the world economy." (Jeffrey A. Frieden, *Banking On The World*, p. 11.)

American Financiers Guide the World Toward Economic Integration

"After World War II, American finance and industry, led the capitalist world toward economic integration." (Jeffrey A. Frieden, *Banking On The World*, P. 12.)

International Bankers Help Finance Wars

"American bankers were indeed of increasing international importance. The firm of Kuhn, Loeb and the National City Bank, in concert with British and German partners, lent \$410 million to Japan during the Russo-Japanese war of 1904-1905. Jacob Schiff – head of Kuhn, Loeb, America's leading ... investment bank – was especially pleased to be able to assist the Japanese war against the ... 'enemy of mankind' sitting in St. Petersburg. The British government itself borrowed some \$200 million from the firms of Morgan and Kidder, Peabody between 1900 and 1902 to help finance the expensive Boer War." (Jeffrey A. Frieden, *Banking On The World*, p. 24.)

American Bankers Finance World War I

"By the time the United States entered the war, [WWI] its private financiers had lent some \$2.6 billion to Britain, France, and their allies. Most of the lending was managed by [J. P.] Morgan, who also acted as the American purchasing agent for the Allies. Morgan's purchases on behalf of its Allied clients averaged over a billion dollars a year between 1914 and 1917, and accounted for one-quarter of American exports. We can get an idea of the magnitude involved by noting that the \$2.6 billion in lending between 1914 and 1917 was more than twice the federal government's debt at the time, while Morgan's purchases for the Allies were greater than 1910 federal government spending. More generally, since the U.S. economy today is about one hundred times as large as it was at the time of World War I, owing to both inflation and economic growth, we might multiply the figures

by 100 to get a sense of their present-day equivalents." (Jeffrey A. Frieden, *Banking On The World*, pp. 26-27.)

The U.S. Government Helps Finance World War I

"In March 1917, indeed, Morgan's firm told the British Treasury that private lending was no longer feasible. At much the same time, however, the Germans, in a serious miscalculation, resumed unlimited submarine warfare. The ensuing American declaration of war, on April 4, 1917, came just in time to save Allied finances. The U. S. government replaced the private bankers, issued five series of war bonds, and lent \$9.6 billion to the Allies between May 1917 and April 1919." (Jeffrey A. Frieden, *Banking On The World*, p. 28.)

International Bankers Become the Greatest Force in International Relations

"World War I put American international bankers at the center of world politics, and they faced the aftermath of World War I with great enthusiasm. In the years following the war, the financiers became unarguably the greatest economic force in international relations. Yet their ambitious plans for a postwar world congenial to their interests were continually waylaid by political opponents within the United States, who made it very difficult for the U.S. government to back up U.S. bankers overseas. As Woodrow Wilson discovered in his unsuccessful fight for the United States to join the League of Nations. It was far easier to have one's way with war-weary Europe than it was to win over the representatives of America's heartland in Washington.

"The nation's international financiers, though, saw clearly the course they wanted to follow. The time had come for America 'to seize and hold her rightful heritage – the material and moral leadership in world affairs,' in the words of New York financier A. J. Rosenthal. Otto Kahn of Kuhn, Loeb told his countrymen: 'Whether we like it or not we must take part in the economic affairs of Europe.' This meant supervising European reconstruction – and, if necessary, financing it." (Jeffrey A. Frieden, *Banking On The World*, pp. 29-30.)

International Bankers Draft Postwar Plans

"American bankers' participation in planning for the postwar settlement began as soon as the United States entered the war. Thomas Lamont, the prominent Morgan partner, sailed to Europe in the autumn of 1917 as a confidential financial advisor to the all-important mission of Colonel E. M. House to discuss wartime and postwar plans with the British and French. After the Armistice, Lamont once more set off for Europe. This time he was an official U.S. Treasury representative to the complex negotiations at the Paris Peace Conference. Lamont and fellow Wall Streeters Norman H. Davis, Bernard Baruch, and a young John Foster Dulles spent most of the first half of 1919 working on the crucial economic components of the Versailles treaty. The Americans were especially concerned to moderate the

Anglo-French demands that Germany pay exorbitant war reparations, in excess of \$100 billion; they eventually obtained an acceptable reparations agreement, although one still too punitive and imprecise for Lamont.

"After the Versailles negotiations were over, the bankers returned to the private sector, but continued their efforts at international crisis management. As Thomas Lamont later put it, Wall Street held Europe together in the 1920s: 'Bad as were the economic and financial conditions in Europe following World War I, nevertheless they were sufficiently within control to be handled largely by private banking and investment interests.'

"During the 1920s, United States private bankers initiated, supervised, and funded most of the central developments in the world economy. They built international organizations, stabilized currencies, and oversaw government economic programs in Europe and Latin America. Decision making in the 1920s international economy centered on Wall Street; the United States was a crucial component of the decisions taken; and the world operated in large part on a dollar standard.

"When, for example, the economies of Central and Eastern Europe nearly collapsed in the 1920s, stabilization programs were worked out, funded, and overseen by American and British bankers, generally joined by the Federal Reserve Bank of New York, the Bank of England, and the Financial Committee of the League of Nations. The combined influence of the major New York and London bankers, the world's leading central bankers, and the League of Nations was used to halt economic disintegration...." (Jeffrey A. Frieden, *Banking On The World*, pp. 30-31.)

International Bankers Build Network of Decision Makers and Opinion Molders in America

"America's international bankers after World War I also went about building a network of decision makers and opinion leaders inside the United States sympathetic to their internationalist views and capable of implementing them. The National City Bank helped American universities introduce foreign trade into their curricula. In 1914, New York University set up the nation's first course sequence on overseas commerce; within a year, seventeen universities had similar programs. The bankers also helped found professional schools for study of overseas conditions, such as Columbia University's School of International Affairs and Princeton's Woodrow Wilson School. They were instrumental in creating the think tanks and research institutions that have since been at the center of America's foreign policy establishment. The Foreign Policy Association, the League of Nations Association (now the United Nations Association), and the Carnegie Endowment for International Peace were all designed to develop a foreign policy, and foreign policy makers, worthy of America's new international role. The most

important of these institutions was the Council on Foreign Relations (CFR), formed right after the end of the war. Morgan's chief counsel was the CFR's first president, and Wall Street was overwhelmingly represented on its board. When the council began publishing the journal *Foreign Affairs* to serve as the center for foreign-policy debate, Morgan's Thomas Lamont arranged for the man who had edited Lamont's *New York Evening Post* to become the first editor of the journal.

"Some important sectors of the U.S. government shared the bankers' vision of world leadership. The State Department was a bastion of internationalism, and Charles Evans Hughes, secretary of state from 1921 to 1925, was extremely sympathetic. The new Federal Reserve System, dominated by Benjamin Strong, the powerful chairman of the Federal Reserve Bank of New York, was a reliable ally. 'We feel in New York,' Strong told his fellow Fed governors in 1921, 'that the general recovery of trade around the world is going to be brought about by our making New York a good market in which the world can borrow money.'" (Jeffrey A. Frieden, *Banking On The World*, pp. 33-34.)

The International Bankers Well Laid Plans Encounter Opposition From Nationalists

"The economic influence of American bankers was extraordinary in the 1920s, and yet the decade was one of repeated political failure and frustration for them. Ironically, the single biggest hurdle to their well-laid out plans turned out to be within the United States itself. After the internationalist interlude of the war, traditional nationalists quickly reasserted their powerful position in American politics.

"Despite the fundamental change in America's international economic position, within a couple of years following the end of World War I most of the bankers' international plans ran into serious opposition within the American political system, and with a few exceptions this opposition blocked their full implementation. This is especially striking since most of the bankers' program – trade liberalization, U.S. aid for European reconstruction, American international monetary and financial leadership – was implemented with little difficulty in the late 1940s. After World War I, however, domestic political opposition to 'internationalism,' as the new interest in American world leadership came to be called, was so powerful that the bankers and their allies faced round after round of grueling battles and partial defeats in the U.S. Congress and much of the cabinet.

"The first major failure of the 'internationalists' was the refusal of the U.S. Congress to approve American entry into the League of Nations.... Congress voted down virtually all legislation committing the country to the international organizations American bankers had worked so hard to design and implement.

"The bankers' second great failure was in their attempt to move the United States away from its traditional protectionism. Unless the United States bought

more from Europe, the Europeans would not have enough dollars to repay their debts. Otto Kahn told his country: 'Having become a creditor nation we have got now to fit ourselves into the role of a creditor nation. We shall have to make our minds to be more hospitable to imports.'

"The United States had some of the world's highest trade barriers before World War I, although Woodrow Wilson had brought tariffs down in 1913. The war so disrupted world trade, though, that the effects of these lower tariffs were barely felt. By 1920, a postwar depression had rekindled the debate, and the bankers fought long and hard to keep the American market open to their European clients.

"These bankers knew that reducing the American tariff meant giving up some of the domestic market to foreigners, but they saw this as a small price to pay to gain access to foreign markets for American goods and capital....

"The bankers' third major failure was over what soon became known as the 'war debts-reparations tangle.' By the end of World War I, America's allies were saddled with some \$10 billion in war debts to the U.S. government, which they attempted to counterbalance by extracting reparations from a defeated Germany. The European victors complained endlessly about the burden of their payments to the United States, while Germany deeply resented the ignominy of its reparations payments to the victors. With Europe's economic and political relations hamstrung by war debts and reparations, Europe's capacity to borrow from American bankers and buy from American exporters was seriously limited.

"Jack Morgan was blunt. 'Those debts should be cancelled,' he told the *New York Times* in 1922. The bankers lobbied tirelessly for the United States to write off all or part of Europe's war debts to the U.S. government, which would allow the British and French to scale down their demands for German reparations; the European economies would be sounder, and American lending to Europe would be able to resume. Kuhn, Loeb's Paul Warburg told President Harding in 1921, 'It is of infinitely greater value to the United States to reconstruct a world in which we can trade in peace and security than to have on our books obligations of our comrades in arms which they cannot pay.'

"Yet inside the United States, opposition to canceling Europe's debts to the U.S. government was overwhelming. There was, of course, the 'moral' issue: 'They hired the money,' as Calvin Coolidge said. A more practical objection was that interest on the government's loans to Europe was expected to be about one-seventh of all U.S. government revenue, and a cut in these interest earnings would require a domestic tax increase, which the heartland's industrialists believed would prolong the postwar recession....

"Herbert Hoover, Commerce secretary in the post-Wilson administrations and the principle economic policymaker in the cabinet, was himself suspicious of the bankers. Hoover was primarily concerned with American industry, not finance. He

wanted American exports to grow, and he wanted the country's industries to have access to the cheap raw materials he had worked to find as a mining engineer abroad. Yet loaning money to the overseas competitors of American business was far less desirable. 'A billion dollars spend upon American railways,' Hoover insisted, 'will give more employment to our people, more advance to our industry, more assistance to our farmers, than twice that sum expended outside the frontiers of the United States.' (Jeffry A. Frieden, *Banking On The World*, pp. 34-35, 36, 37-38, 39.)

New York Federal Reserve and State Department Officials Cooperated in Secret With Private International Bankers

"The result of the international bankers' economic expansion and their frequent political defeat within the United States was a curious patchwork of private involvement in, and public disengagement from, European economic affairs. While Wall Street became more and more committed to the international economy, the U.S. government drew back from Wilsonian internationalism. No American officials participated in international organizations, and American government involvement in European economic affairs was minimal. To be sure, the New York Fed and the State Department cooperated with the bankers, usually in secret; but the executive branch for the most part simply observed while private American bankers tried to reshape the world economy." (Jeffry A. Frieden, *Banking On The World*, p. 39.)

International Bankers Develop Postwar Plans After World War II

"Wall Street built a cohesive network of wealth, power, influence, and intellect in the years after 1914. Individual bankers and their allies accumulated a storehouse of contacts and experience that proved essential during and after World War II. John Foster Dulles, to take one prominent example, cut his teeth on international affairs as a Wall Street lawyer in the 1920s. Among other things, he helped supervise the Polish financial stabilization of 1927 as counsel to the American banks involved (Chase; Blair and Co.; and Bankers Trust). Along with learning about European politics and finances, the experience brought him together with Jean Monnet, Chase's Paris representative, who built the European Common Market during Dulles' reign as U. S. secretary of state in the 1950s.

"An entire generation of American foreign-policy makers and shakers, many of them bankers, lawyers for bankers, and financial journalists, formed its view of the world in the turbulence of Versailles, the boom of the 1920s, and the disasters of the 1930s. Much of the powerful cohort of wartime and postwar leaders who would rebuild the world after 1945 came from Wall Street. Dean Acheson, John Foster Dulles, James Forrestal, W. Averell Harriman, Robert Lovett, John McCloy, and Edward Stettinius were all major Wall Street figures who molded American

foreign policy after World War II, fired by a determination not to repeat the mistakes of the 1920s." (Jeffrey A. Frieden, *Banking On The World*, p. 49.)

International Bankers Develop the Most Powerful Financial System in World History

"The international banking business was slow, but American international bankers were anything but inactive. They were powerful people with strong ideas about the proper path for the country to take. In the 1930s and 1940s, American international financiers redoubled their efforts to lead the United States toward a course of action they deemed appropriate. The successive waves of economic, political, and eventually military cataclysms that swept the world after 1930 clearly made it impossible to return to the pattern of the 1920s, in which American international bankers had tried to rebuild the world economy with the committed support of the U.S. government. As Thomas Lamont wrote in 1947, what he and his colleagues in private banking had done in the 1920s, 'today can be undertaken only through the cooperation of governments themselves,' for 'the chaos in Europe is so complete that only strong government action can hope to reduce it to some degree of order.'

"The bankers were able to get much of what they wanted in postwar international reconstruction, for domestic resistance to American international economic and political involvement diminished in the 1940s. Foreign competitors were few and far between at the end of World War II. Even so, there was quite a residue of domestic hostility to internationalism. Perhaps most important in overcoming this hostility was the connection made within a few years of the war's end between economic internationalism and the broader American program of building a Western anti-Soviet alliance. On this basis, despite lingering popular uneasiness about overseas commitments, America's international bankers were able to play a central part in building the new international economic order.

"The Depression and World War II indeed led the U.S. government to embrace many of the bankers' ideas, and many of the bankers themselves, in the process of planning a postwar world. After the war, the government took on the task of remaking the international economy, with the enthusiastic participation of the bankers in this second chance at postwar reconstruction. On the basis of the new economic order that ensued, America's international banks rebuilt their shattered networks abroad and led the way toward the largest and most powerful international financial system in world history." (Jeffrey A. Frieden, *Banking On The World*, pp. 51-52.)

Wall Street Financiers and Lawyers Design the Postwar World After World War II

"As war began in Europe, Wall Street's economic internationalists flooded into the administration to plan for the postwar economic settlement. Some of the

country's most prominent wartime and postwar figures came to government from the financial community. W. Averell Harriman – son of financier and railroad man E. H. Harriman and senior partner in the firm of Brown Brothers, Harriman – was perhaps America's best-known international envoy from 1941 to 1953. Harriman served successively as coordinator of Lend Lease assistance to Britain, ambassador to the Soviet Union, ambassador to Great Britain, secretary of commerce, American overseer of the Marshall Plan, chief foreign affairs advisor to the president, and director of mutual security. Robert Lovett was a long-time associate of Harriman's, both in railroads and at the firm of Brown Brothers, Harriman; he started as assistant secretary of war for air, then became under secretary of state to George Marshall, then Marshall's deputy secretary of defense, and finally secretary of defense in his own right. James Forrestal, a close friend of Lovett's left the presidency of the investment bank of Dillon, Read to serve as under secretary of the navy, then secretary of the navy, then secretary of defense until mental illness drove him from office and to suicide.

"A number of Wall Street lawyers also served prominently. Dean Acheson came back to the administration in 1941, and progressed from assistant secretary to under secretary to secretary of state. John Foster Dulles, a Republican, was an important advisor to the Democratic administrations and then succeeded Acheson as secretary of state when Eisenhower took office. John McCloy was assistant secretary of war, then president of the World Bank, then American high commissioner in Germany. These veterans of the American financial establishment, and others less well known, spent most of their time and energy between 1939 and 1955 in or around the government, helping to design the postwar world.

"The internationalists, both those who went to Washington and those who remained in the private sector, wanted a reconstructed world to be based on free trade, sound currencies, and international economic cooperation under American leadership. The United States would have to discard once and for all the foreign-policy ambivalence international bankers had confronted in the frustrating 1920s." (Jeffrey A. Frieden, *Banking On The World*, pp. 57-58)

International Bankers Oppose Efforts for European Nations to Become Self Sufficient

"To American postwar policymakers, the incessant attempts of Europe's small nations at economic self-sufficiency on a national basis seemed both absurd and inherently warlike. The best way to avoid another Continental war was to tie the Western European economies together in a web of economic interdependence." (Jeffrey A. Frieden, *Banking On The World*, p. 71.)

International Bankers Control the Euromarket

"Today's international financial markets constitute a pool of capital of almost unimaginable size. The offshore markets in which most international banking takes place hold almost \$3 trillion. If one subtracts transactions among banks themselves, the market's net size is well over a trillion dollars. Even the lower figure is staggering: it is equal to the entire output of China's 1 billion people in four years. The market's trillion dollars could buy every manufacturing corporation in the United States, as well as the livestock, crops, buildings, and machinery on all of America's farms.

"This huge pool of capital is not stagnant. In an average year, banks and other investors in the offshore markets lend \$300 billion to governments and nonfinancial corporations. Since the early 1970s, about half the borrowers have been from North America, western Europe and Japan; a third from the non-OPEC developing countries; and the rest are from the non-OPEC developing countries; and the rest are about evenly split between OPEC and Communist borrowers. The approximately \$300 billion that international financial markets lend out every year is roughly equal to what America's corporations borrow in three normal years, or what they invest in a normal year. In other words, every year international banks lend enough to purchase every new factory, railroad, port, ship, power plant, and other productive facility built in America in that year, along with all the new machinery inside them; or to buy all of the new private homes and apartment houses built in the United States during three average years.

"Banks all over the world are tied electronically to these enormous international financial markets. They can shift millions of dollars around the globe, or trade billions of yen for Deutsche marks, in a matter of minutes. They can put together billion dollar loans for major governmental and multinational corporations in a few days. Their ability to respond instantaneously to economic and political events has transformed the world economy." (Jeffrey A. Frieden. *Banking On The World*, pp. 79-80.)

Leading Banks Determine the Contours of the American Financial Market

"Today the Euromarkets tie the world's investors, borrowers, and banks together in a network that is at the same time part of no national financial system and part of them all....

"Eurobankers deal primarily with other Eurobankers; over half of all offshore business is between banks. Most of the rest is with major multinational corporations, big institutional investors, and governments. This is a market for the 'heavy hitters' seeking to borrow, trade currencies, and make deposits in multiples of a million dollars. Loans in the billions are not rare.

"The offshore markets are indeed attractive to large depositors and borrowers. The relative insulation of these markets from the whims of national authorities makes them appealing to governments that might be subject to financial intervention for political purposes, as well as to large private investors interested in evading taxes. The fact that banks doing business on the offshore markets are generally free from national financial regulations, and that international banks deal only with very large deposits or loans, allows the offshore markets to pay more to depositors, charge less to borrowers, and use the latest in telecommunications technology and financial innovations. The combination of state-of-the-art technology and relative freedom from government interference makes the offshore markets the financial marketplace of choice for the world's leading banks and corporations.

"This great international financial system is important, both for its size and because it forms the apex of a pyramid whose base is the national economies of the entire capitalist world. The huge financial institutions that dominate the offshore markets in turn hold sway over the financial markets of their home nation. The United States is a good example. Nine American commercial banks – Citibank, Chase, Morgan Guaranty, Manufacturers Hanover, Bankers Trust, and Chemical, all of New York; and First Chicago – account for the vast majority of American international financial activities. They are joined abroad by five leading investment banks – First Boston, Morgan Stanley, Salomon Brothers, Merrill Lynch, and Goldman Sachs. These few internationally prominent banks from the United States largely determine the contours and direction of the entire American financial market. The five investment banks do two-thirds of all bond underwriting in the United States. The leading commercial banks have about one-third of the resources of the entire American banking system among them, and each of them is several hundred times the size of the average American bank. When Chase or Citibank lowers or raises its prime lending rate, other banks follow suit.

"Around the world, the largest banks from every major non-communist nation have become international, and with several dozen counterparts from other countries, they lead the international banking system. All nations are drawn into the international financial whirlwind: Their economies depend on their domestic financial system, the financial system are led by a few big banks, and these few banks are part of the tightly knit world of international finance.

"The offshore financial markets contain more capital than has ever been brought together in all of world history, and they are a major force in the economies of all of the world's nations. No corporation, investor, or government is insulated from trends in international banking. Investment, production, and commerce all rely on the banks; international currency movements, international trade, and international investment flow through the banks; governments plan and execute their policies with a close eye on the international financial reaction." (Jeffrey A. Frieden, *Banking On The World*, pp. 90, 91-92.)

International Bankers Possess Veto Power Over National Governments

"The ability of the contemporary international financial system to shift billions of dollars from place to place in minutes gives the markets something akin to veto power over domestic or international decisions. All the world's companies and governments are interested in having access to funds as cheaply as possible. The great integration of contemporary financial markets means that this battle for finance is global; companies and governments compete against each other for the confidence of the international financial system. Actions that reduce confidence will raise the cost of capital to firms or countries, so they must be concerned with maintaining the markets' goodwill.

"For international bankers, the markets' ability to restrain the behavior of politicians is a profoundly good thing. International finance thrives in large part because national governments do not interfere with it. More generally, the international financial system depends so entirely on the free movement of capital across border that any attempt to restrict these movements is a threat to the markets as they are currently organized. The international financial community, has a vested interest in convincing the world's governments, and their people, that intervention in their business will be counterproductive, and may even be impossible." (Jeffrey A. Frieden, *Banking On The World*, p. 113.)

International Bankers Rule Over the Nation-States

"Walter Wriston is the most prominent spokesman for the American international banking community, and there is little doubt that his conscience coincides with his needs. In the decade up to 1984, Wriston was one of the world's leading bankers as chairman and chief executive officer of Citibank. He helped engineer Citibank's extraordinary international expansion in the 1970s, and even in retirement he is a participant in efforts to keep world markets open....

"Wriston believes that the battle between markets and politics is nearly over, and that politicians have already lost to what he calls 'the information standard' – the ability of firms and individuals to communicate globally and instantaneously. Wriston spoke to me in his Citicorp Office:

"The gold standard, replaced by the gold exchange standard, which was replaced by the Bretton Woods arrangements, has now been replaced by the information standard. Unlike the other standards, the information standard is in place, operating, will never go away, and has substantially changed the world. What it means, very simply, is that bad monetary and fiscal policies anywhere in the world are reflected within minutes on the Reuters screens in the trading rooms of the world.

"Money only goes where it's wanted, and only stays where it's well treated, and once you tie the world together with telecommunications and information, the ball

game is over. It's a new world, and the fact is, the information standard is more draconian than any gold standard. They think the gold standard was tough. All you had to do on the gold standard was renounce it; we proved that. You cannot renounce the information standard, and it is exerting a discipline on the countries of the world, which they all hate. For the first time in history, the politicians can't stop it. It's beyond the political control of the world, and that's the good news.'

"The size and speed of today's international financial transactions, Wriston says, makes it impossible for politicians to override the market's judgment.

"There not enough money in the world to support a currency with dumb fiscal and monetary management. The president of the United States goes out in the Rose Garden and says something dumb. The trading lights of the world light up, and it's all over. In France, Mitterrand announced all those ridiculous moves, and they lost a third of their foreign exchange in a week.

"There are 60,000-odd terminals out there in the trading rooms of the world, and those guys are about as sentimental as a block of ice. If they're going to sell, that's it. This is new in the history of the world, and I don't think it can be structured or contained, and I think that's good news over a longer frame. There's no place to hide.'

"Wriston realizes that market signals can be uncomfortable for political leaders or systems.

"The last thing the political process wants is to be accountable. But there's nothing the politicians can do. The information standard, the information-intensive society, moves accountability from a few knowledgeable men and women to the population. Internationally, it moves it to a judgment of the way your policies look to the international markets.

"At the end of the day, it's a new world and the concept of sovereignty is going to change. Politically, the new world is an integrated market in which nobody can get away with what they used to. You can't control what your people hear, you can't control your capital flows. The idea of fifteenth-century international law is gone. It hasn't laid down yet, but it's dead. It's like the three-mile limit in a world of Inter-Continental Ballistic Missiles.'" (Jeffrey A. Frieden, *Banking On The World*, pp. 114-115.)

Third World Countries in Financial Bondage to the International Bankers

"Developing countries in Latin America, Africa, and Asia owe over \$600 billion to international banks. Since 1982, debtor after debtor has gone to the brink of default, and the Third World debt crisis has been the most prominent and controversial issue in international finance." (Jeffrey A. Frieden, *Banking On The World*, p. 123.)

National Governments Are Powerless in the Face of International Bankers

"The world economy is entering uncharted waters. For hundred of years, economic and political systems have been primarily national and coterminous; business people and workers have taken their economic grievances to national governments. No government responds for the actions of international financial markets, and national policies are increasingly powerless in the face of a truly global banking system. Nonetheless, while capital may be extraordinarily mobile, most people – and most businesses – cannot move from activity to activity, or from place to place, in response to marginal economic changes.

"In every country with well-developed international economic relations, the dictates of global markets are in increasing conflict with the demands of firms, industries, and groups at the national level. International bankers, and many other economic actors around the world, have a vital interest in maintaining and deepening international financial and economic integration. Yet global markets threaten the livelihood of more insular business people and workers, who want to stop or even reverse international economic interdependence.

"In the United States, as in the rest of the world, the country's international financial relations are deeply entangled in domestic politics. The United States is increasingly subject to developments on international capital and goods markets. For some, this financial openness is the source of enormous profit opportunities, and they do what is possible to reinforce and protect contemporary international financial integration. For others, the country's exposure to international competition is a disaster, and they fight to restrict economic integration. The resultant battles can pit industry against industry, region against region, workers against management, and eventually, perhaps, country against country.

"The future of the international political economy, and of international finance, depends on how conflicting interests concerning the new economic realities are fought out in the political systems of the world's nations. The international political economy might move even further toward economic and political integration, an outcome which could subject nations and peoples to the ever-increasing, and often unpleasant, discipline of international market forces. The world might divide into more self-contained and protected investment and trading alliances, which might undermine existing international political relations. Or international economic relations might stumble from problem to problem, raising the specter of uncertainty and even collapse.

"The starting point for whatever direction the international political economy takes is today's highly integrated Western world economy. Robert Slighton, Chase Manhattan Bank's chief international economic forecaster, points out that strong and deep financial and trading ties bring together every capitalist nation: "The single broad trend of the postwar period has been increased economic

interdependence. The proportion of world trade to world output has increased dramatically. Even more dramatic has been the increased interdependence of world capital markets, to the point where it is almost a misnomer to talk about a national capital market. There is a global capital market, period. The United States is just a part, although a very major part, of the global financial market." (Jeffrey A. Frieden, *Banking On The World*, pp. 162-163.)

International Bankers Have a Powerful Interest in a Financially Integrated World Economy

"Since World War II, the economic and political leaders of all Western nations have been generally committed to international economic integration....

"Political consent made the global financial integration of the past thirty years possible, and political consent will be needed for this integration to advance. The most concerted political support for a continuation of current trends comes from the international business community. This includes both global banks and multinational industrial corporations with truly international production, distribution, and technological networks. International financial leaders and their allies around the world have battled to maintain international economic openness against the more insular pull of national politics.

"International bankers have powerful and concentrated interests in a financially integrated world economy, since their business is central to such a world. The more international trade and investment increase without government interference, the more scope there is for private international financial institutions to extend trade credits, exchange currencies, take deposits, and make loans. The material interests and ideological tenets of the world's bankers lead them to insist that policymakers heed, not controvert, even untoward international market trends.

"If economic internationalists prevail politically, and the postwar trend toward greater international economic integration is simply projected forward in a straight line, the result will be a capitalist world with truly global financial and goods markets and general political acceptance of market judgments. Walter Wriston believes that a fully integrated world economy immune from political interference is on the near horizon. 'Today,' Wriston has said, 'except in a very few instances, national borders are no longer defensible against the invasion of knowledge, ideas, or financial data.... We now have a new calculus, which, I believe, will in the end be beneficial to the world. It exerts global pressure on all governments to pursue sounder economic policies because it is becoming increasingly obvious that it is now impossible to hide in our new electronic world.'

"Should the political influence of such market globalists as Walter Wriston be as strong as their preferences, the capitalist world will move toward economic integration free from political interference. In such a world, firms and individuals, labor unions, and politicians would all accept the verdict of international markets

on the most efficient use of their time and energy. The economic role of government would be restricted to smoothing the transition of workers and capitalists from uncompetitive to competitive industries or regions, helping to organize markets, and providing a sympathetic judicial and social environment for private international transactions.

"The organization of the world's businesses on a global basis will, in this view, allow the market to decide how resources can most effectively and profitably be mobilized. International banks and corporations are the leading edge of the new order, says Wriston: 'The reality of the global marketplace has been the driving force pushing us along the path of developing a rational world economy. Progress that has been made owes almost nothing to political imagination. It has been the managers of the multinational corporations who have seen the world whole and moved to supply mankind's needs as efficiently as politics would allow'

"The attraction of market globalism is that it subjects all economic decisions to the scrutiny of international investors who can weigh potential profit opportunities around the world and encourage those that make the most economic sense. The argument is vaguely Social Darwinian: because economically impractical enterprises cannot survive in the long run, it is better that they never be started in the first place, or if they exist, that they be closed as quickly as possible. Globally integrated markets would not allow firms, workers, and governments to make costly mistakes – investing in unprofitable industries, acquiring unnecessary skills, adopting misguided policies....

"Nevertheless, stubborn domestic groups and political leaders can erect important obstacles between national and international markets. They can impose trade barriers on imported goods or grant subsidies to exporters.... (Jeffrey A. Frieden, *Banking On The World*, pp. 165, 166-168.)

Economic Interdependence Has Made National Sovereignty an Illusion

"Walter Wriston says impatiently, 'As a general rule, the politicians have been engaged in fragmenting the world, while the multinational corporations have been viewing the planet as a single marketplace.' Wriston's dismay is echoed by policymakers restless about the recalcitrance of national governments to respond to this changing international reality. Anthony Solomon, then president of the Federal Reserve Bank of New York and second only to Paul Volcker among the U.S. government's financial decision makers, worried in 1982 that 'the pronounced increase in interdependence we have seen has so far done little to dislodge deeply ingrained opinions. Instead, most governments, whether in the industrial countries or in the developing world, still cling to unrealistic notions of national autonomy.... It is an illusion that full national freedom of action exists in the kind of world we have, and it is wiser to be honest about that and let go of the illusion.'

"Given the formidable obstacles to global economic integration, even the most fervent believers in the desirability and inevitability of the process recognize that it will hardly be smooth. What they hope and expect is that the trend is in the direction they desire. Walter Wriston told me, '... We're in a revolution right now, and its being driven by technology. There is nothing the politicians can do – they can play King Canute for a minute, but the political process eventually catches up with technological innovation. That doesn't mean the halcyon days are here, or the wonders of world government, but I would argue that it's putting a closer noose in a shorter time frame on the political action of every country.'

"Increasing economic interdependence, Wriston believes, already so restricts the maneuvering room for national politics that it cannot be reversed. The economic attractiveness of every major nation, sector, and firm is being evaluated continually by thousands of bankers, traders, and investors around the world. Since government decisions affect profit opportunities, international currency markets pay close attention to political trends, and new policies are almost immediately reflected in currency values and capital flows.

"The sheer size and speed of global financial markets makes them an economic force in their own right. As Wriston puts it, 'The fact is that the foreign exchange market now amounts to around fifty trillion dollars a year and is just too big for any one entity to move. If you took all the capital of all the banks in the United States and sold it in the foreign exchange market, it would amount to about ten minutes of trading...'

"Many international bankers thus believe that the ability of international financial markets to move funds toward congenial political systems and away from hostile ones will eventually bring reality closer to their ideal world in which governments are unable to control them. As Walter Wriston said to me, 'the political process has to be altered; the marketplace will work in politics as it does in economics.' He anticipated that politicians unable to attract capital to their jurisdictions will be turned out of office as their economies stagnate, and will eventually be replaced by leaders who can instill confidence in international investors." (Jeffrey A. Frieden, *Banking On The World*, pp. 168-170.)

Tens of Millions of U.S. Jobs Will Become Extinct in the Future Interdependent World

"In an ideal interdependent world, the capital-rich and highly educated nations of North America and Western Europe would produce only goods that are intensive in capital and knowledge, concentrated in such sectors as high technology; labor-intensive manufacturing would be carried out in the labor-rich areas of the Third World. This may be rational and efficient, but it implies the extinction of tens of millions of jobs in the United States alone, and current jobholders cannot be sure that they would find employment in new lines of

business. Politicians from America's industrial centers can hardly relish the prospect of the gradual demise of the industrial workers and industrialists they represent. True international economic integration radically reduces the room for independent action by governments to protect their constituents' jobs and living standards.

"For a large number of groups and industries, the rest of the world is an economic threat rather than an opportunity...

"The impact of international financial affairs on domestic economies and politics is often unwelcome. Firms, groups, and politicians in industrial societies have thus tried to restrict the scope of international economic forces. Pressure for trade protection has mounted steadily in the United States since 1970, reaching its highest level during the early 1980s. Many European firms have turned away from volatile international markets toward more predictable bilateral contracts with customers in Eastern Europe and the Soviet Union; Western European politicians of all political views aggressively promote Eastern bloc trade. Traditional European industries have been vociferous in their demands for national, or Common Market, support against foreign competition." (Jeffrey A. Frieden, *Banking On The World*, pp. 170-172.)

National Sovereignty Threatens the Power of the Multinational Corporation

"In 1975, Henry Kaufman, a senior partner of the important investment bank Salomon Brothers and one of Wall Street's most respected leaders, expressed concern about the political difficulties facing international business leaders. 'Nationalism is on the rise again,' Kaufman wrote. The implications were serious. 'Unless we can arrest the rise of extreme nationalism, the multinational corporation will no longer be a growing force in international markets. Accelerating nationalism will mean increasing conflict between the economic rationality of the multinational corporation and the objectives of the sovereign state.'

"At the same time, Paul Volcker expressed similar fears to an interviewer from *Euromoney*... 'My experience in recent years has made me very conscious of the difficulty of getting a cohesive co-ordinated policy when there is this much dispersal of basic power centers and a kind of self-consciousness of separate political and economic identities that goes with the dispersal. It increases the danger in my mind that one country or another, running into economic adversity, is going to adopt fairly self-serving policies....' (Jeffrey A. Frieden, *Banking On The World*, pp. 174-175.)

The World's Leading Private Bankers Pressure Congress to Give \$8.4 Billion in U.S. Taxpayers Money to the IMF

"An important demonstration of how domestic economic distress in the United States might affect the international financial system came at the height of the debt

crisis. In 1983, the Reagan administration asked the U.S. Congress to approve an \$8.4 billion increase in the U.S. contributions to the International Monetary Fund. The international financial community regarded strengthening the IMF as essential, while many domestic political forces in the United States opposed the use of taxpayers' money to strengthen a system they did not support.

"The battle over the U.S. quota increase became the most hotly contested and closely fought struggle over American foreign economic policy since the 1940s. It pitted the world's leading private bankers and business people, and the combined weight of the Reagan administration, against domestic American political forces with little sympathy for international financial integration. The extraordinary difficulty the IMF's supporters had in the United States is an indication of how hard it may be to reconcile national politics with the needs of global capital markets.

"The International Monetary Fund plays a central role in international finance.... The debt crisis that began in 1982 gave this international financial police officer more to do than ever before. By 1983, dozens of countries – compared to one or two in the normal year – were in different stages of IMF programs designed to enforce good financial behavior. The fund had made so many stabilization loans that it was in danger of running out of cash. The IMF's available funds had to be increased; since these funds are met by quotas from member nations, each member had to increase its contributions. Agreement was eventually reached on an approximately 50 percent increase....

"In the United States, opposition to an \$8.4 billion additional American contribution to the IMF arose almost immediately. The international financial community looked on aghast at the possibility that provincial Congressmen might bring international financial markets to a standstill. Jacques de Larosiere, managing director of the IMF, voiced widespread fears that failure to increase the fund's resources 'would cripple this institution' and have 'incalculable consequences for economic and financial stability worldwide.'

"The Banker's Association for Foreign Trade (BAFT) coordinated and led much of the bank lobbying for passage of the IMF bill. This sixty-five-old lobbying group describes itself as 'the leading spokesman for the international banking community.' The Washington-based organization, with about 135 American banks as full members and another hundred foreign banks as nonvoting members, is a concentrated and specialized political organ of the American international banks.

"Washington lawyer Gary Welsh was centrally involved in the IMF quota conflict; he worked for BAFT during the legislative struggle. Welsh knows well both the principle obstacles to financial internationalization and the reasons for the bill's eventual passage. 'There's a strong political resistance to the internationalization of our economy,' he told me two years after the quota debate....

"The strange political lineup drew the labor movement, the New Right, and import-competing industrialists together as critics of the banks and the IMF....

"Most of the protestors were primarily interested in using the debate as a symbolic opportunity to raise long-standing concerns over U.S. government support for international banking; few had strong feelings about the quota increase itself. Even so, as Gary Welsh recalls, 'the bill was only approved because St. Germain (Jake Garn, a Utah senator and chairman of the Senate Banking Committee, and Fernand St. Germain, a Rhode Island congressman and head of the House counter-part) combined the IMF bill, which probably would not have passed the House on its own, with a whole series of bills on housing, community development, and a half dozen other things.'

"With few public supporters in their battle for the bill, the bankers had to rely on a behind-the-scenes network in the executive and legislative branches. 'In the international area,' Welsh says, 'a very small club carries the stuff through Congress, and you've got to be in good communications, working together.' Welsh lists the principal supporters activated during the debate. 'The Fed, obviously, was crucial. Volcker saw the implications of everything much sooner than the Treasury did. We worked very closely with the Fed, particularly in responding to initiatives that came out of the Congress about regulating the banks. We would need to come back, particularly through Volcker, and say they were a bad idea. Sometimes you don't want the banks to say it; you want the regulators to say it. There are ways to make your views known, and generally we'd talk to the Treasury, to the Fed, to the Comptroller (the Office of the Comptroller of the Currency, a Treasury agency that regulates many banks) and tell them the problems we saw. Then they would get up and testify, and say they had problems with this or that. So we had a very close working relationship with those three agencies.'

"... In their attempt to rally support for the IMF quota increase, bankers tied the bill in with everything from international economic stability to the dire consequences for American national security if Latin American debtors staggered from financial crisis to revolution. James Robinson III, chairman of American Express – one of the country's major international financial powerhouses, even though it is not a bank – drew graphic connections between financial leadership and unrest south of the border. 'It's been labeled a bank bailout bill,' Robinson complained to a *Fortune* reporter...

"Despite the best efforts of the bankers' allies in the executive branch, by the time the bill reached Congress it was already so politicized that chances for its approval were considered slim. Only backroom deals and the assistance of Fernand St. Germain allowed the banks and their supporters to guide the bill through the House, where anti-bank sentiment was concentrated. Early on, the Administration and the bankers convinced St. Germain to support the bill, but he insisted that he

needed to take a public position hostile to the financial community in order to maintain his political reputation and defuse opposition.

"Welsh describes the process by which St. Germain shepherded the quota increase through the House in private, while attacking international financiers in public: 'In the House Banking Committee there was a delicate balancing act. St. Germain said, 'Okay, I understand what's at stake here, but I know the House. I know that were only going to sell it to the members of the House if we can convince them that we're beating you guys on the head.' We were totally dependent on him to get it through the House, because he was the chairman of the committee. And because he is such a vocal critic of the banks, a lot of people believe him. So St. Germain played a critical role in dealing with the popular political sentiment for punishing the banks; he had to convince people that it was being done.'

"Indeed, St. Germain was a major bank critic during the debate. He opened one day of his committee's hearings on the bill, for example with reference to 'the deep concern that the international situation is, indeed, fragile and that the United States must ignore all else and ride quickly to the rescue. U. S. banks, trapped in their international adventures, have used this genuine concern to direct attention from their failings.

"U.S. banks have ignored prudent practices and domestic needs,' St. Germain continued, 'in search of the quick buck and sky-high interest rates offered by desperate borrowers caught in an international financial squeeze.... It ill behoves the Congress, the administration, financial regulators, or journalists to paper over banking excesses with flag-waving statements about the glories of financial colonialism.'

"Even while he engaged in some politically prudent bank-bashing, St. Germain assured the bankers that the bill would go through. He also promised that a variety of restrictive amendments approved in the House version would be jettisoned in the joint House-Senate conference committee. As Welsh recalls, 'The bills that came out of the House were terrible from an international banking standpoint. To get the IMF thing through St. Germain had to say, 'Banks won't be able to do this, they won't be able to do that; we're going to make them put up big reserves on all international loans.' It was a conscious strategy on his part to get it through the House. He'd tell us, 'Once we get in conference, I'll throw out all this stuff.'" The objectionable restrictions on international banking were indeed removed in conference committee once the bill passed the House.

"Although American international bankers eventually got the IMF funding they wanted, the battle was extraordinarily protracted and difficult. Gary Welsh summarizes the lessons of the IMF debate for the political future of American international bankers: 'What the bankers found out from the IMF process was that they weren't popular, which they always thought they were, and that there was a

tremendous misunderstanding of what international lending was all about. The banks learned a tremendous lesson from that: they had done a bad job of communicating with their representatives and senators. We're now trying to build a whole system to disseminate information. We can equip our bankers with material they can go to their community with about the internationalization of the economy, about how we're dependent upon export markets, how imports play an increasingly important and beneficial role in many sectors of our economy, and how banks are a crucial element in financing these flows.'

"The bankers' interests conflict with those of many opponents with political clout and public relations will not eliminate the fundamental disagreement. Welsh concludes that American international bankers will have to rely on their ties with strategically placed policymakers: 'The banks have realized that they don't really have any independent political support in the Congress. Banks can't be up front on the issues; they've got to work very closely with the executive branch. The only way you can get this stuff through is with a strong administration, strong support from the Fed, and strong support from a dozen or so key legislators in Congress – the chairman of the Senate and House Banking Committees, Foreign Relations Committees, the Speaker, people like that. You have to depend on the leadership to carry it through, so that's what everybody's working on.'

"The bankers' harrowing experience of very nearly losing the IMF battle demonstrates that the continued internationalization of financial and goods markets cannot be taken for granted. The IMF quota increase was a relatively small matter that only international bankers and some policymakers felt strongly about. The bill's opponents regarded it primarily as a symbol of overseas economic commitments that irritated them. Even so, the bill would certainly have lost without intensive administration lobbying and skillful work by the bankers' allies in Congress." (Jeffrey A. Frieden, *Banking On The World*, pp. 181-182, 183, 184, 185, 186-192.)

Foreign Ownership of American Based Companies

"While foreign firms have been expanding their exports to the United States, foreign corporations have been moving massively into the country. Foreign investors control American affiliates worth over \$800 billion...." (Jeffrey A. Frieden, *Banking On The World*, p. 198.)

The Most Serious Challenge to International Financial Institutions is Economic Nationalism

"The most serious challenge to America's international financial institutions is the growth of 'economic nationalism,' including everything from trade protection to distaste for the IMF." (Jeffrey A. Frieden, *Banking On The World*, p. 231.)

International Bankers Promote Global Interdependence

"For forty years America's international bankers have been at the center of a world economy whose organizing principle was the free movement of capital and goods, and whose slogan was interdependence....

"The leaders of international finance, along with their allies in the business community, in government, and elsewhere, hope and work for a deepening of contemporary international economic integration." (Jeffrey A. Frieden, *Banking On The World*, p. 235.)

International Bankers Deceive the American People Into Supporting Economic Integration

"During and after World War I, American bankers shot to the pinnacle of the world economy. With the House of Morgan in the lead, American international financiers helped restructure European economies, papered over the war debts controversy, and lent billions of dollars to bankroll rapid economic growth in Europe and Latin America. Yet the bankers' worldwide economic interests often conflicted with the concerns and ideas of American isolationists, who blocked many of the policies preferred by the economic internationalists. Political divisions over America's international economic role reached their high point in the early years of the Depression, when Congress voted sky-high tariffs that helped bring the fragile international financial system crashing down.

"From the depths of the Depression, Americas financial leaders and foreign policymakers cautiously began rebuilding the international financial order. American political support for economic internationalism grew in the late 1930s, and especially during and after World War II. The war destroyed most of the country's fiercest economic competitors and made trade liberalization less threatening. With the onset of the Cold War, international economic cooperation was presented to the public as a necessary weapon in the anti-Soviet arsenal.

"Since World War II, American international bankers and their counterparts in Western Europe and Japan have constructed the largest international financial system in world history. Most contemporary international banking has migrated 'offshore,' to Euromarkets that are largely independent of any single national government. Technological advances allow international fund transfers, lending, and currency trading to take place almost instantaneously between markets thousands of miles apart.

"Modern global banking, and the new international economic realities it has created, challenges the world's political systems. The linkage of national money and capital markets constrains government policies in all countries; billions of dollars ricochet from country to country in response to changes in international interest rates and currency values. Massive international loans helped finance rapid

industrial development in parts of the Third World, and made many of the developed world's traditional industrial plants uncompetitive. Since 1980, the U.S. government has become the world's largest international debtor, and the United States as a whole has become a net debtor nation for the first time since World War I.

"In virtually every nation, the consequence of international financial integration has been domestic political conflict among groups with contending economic interests." (Jeffrey A. Frieden, *Banking On The World*, pp. 237-239.)

National Sovereignty is an Obstacle to Managing an Interdependent World

"The countries of Western Europe and North America, together with Japan, need to collaborate if their own policies are to succeed.... Yet cooperation among these countries encounters serious obstacles, rooted in national sovereignty and democratic politics. The history of the [economic] summit meetings held annually since 1975 between the leaders of the seven largest industrial democracies [Canada, United States, England, France, Germany, Italy and Japan], joined by the European Community, illustrates both the prospects and the problems of managing an interdependent world." (Robert D. Putnam & Nicholas Bayne, *Hanging Together: Cooperation and Conflict in the Seven-Power Summits*, 1987, p. vi.)

Institutionalization of Economic Summitry by Members of the Trilateral Commission

"...The key positions in the new [Carter] administration were staffed by alumni ... of the Trilateral Commission. These Trilateralists were acutely conscious of the tensions between interdependence and domestic politics and of the need to craft a system of collective management to replace American hegemony.

"During 1976 Trilateral Commission task forces had considered how international processes and institutions could be reformed to address these problems. Consultation should be designed to strengthen 'transnational networks of like-minded officials', to foster 'transnational coalitions' among 'the outward-looking forces within each government'. To improve consultation among Europe, North America and Japan a 'Trilateral Staff Group' should be established, composed of 'senior governmental advisers with the personal confidence of the heads of government'. This group would oversee consultations among the trilateral countries, identify unresolved policy problems and seek solutions, and monitor the effectiveness of international institutions. The Trilateralists recognized the importance of 'political will'. But in this framework, summit meetings among heads of state should cap a process of intensive consultations among officials....

"Not limited to atmospherics and warm fellowship, this Trilateralist image of summitry was more ambitious than the Library Group image. The Trilateralist conception took seriously the prospect of international policy co-ordination, along

with the necessity for hard bargaining, transnational coalitions and package deals that might require substantive changes in national policies. If such coalitions were to be forged and such bargains struck, the roots of the summit process would have to reach deep into each government. The horizons of those charged with formulating 'domestic' policy would have to be broadened to include international concerns.

"The Trilateralists did not believe that summits would necessarily take formal and mutually binding decisions, but they did believe that summits should seek to resolve differences over substantive policy issues, not merely 'exchange views'. 'We can't bring the President halfway around the world for a seminar,' Henry Owen, President Carter's personal representative, told his colleagues. The *New York Times* captured the American mood on the eve of the first London summit: 'The most important thing [the leaders] can do is to agree on directives and follow-up machinery for closer co-ordination of economic policy... [This summit] must produce results or begin a slide away from collaboration.' A results-oriented summit, addressing tough, complex issues, would require more organizational infrastructure. Intensive preparation and attentive follow-up were the most distinctive features of the new conception of summitry.

"... [C]areful preparations had been crucial for the monetary accord at Rambouillet, and deficiencies in preparation and follow-up had begun to concern some of the participants at Puerto Rico. Under the aegis of the Trilateralists, the summit process became increasingly institutionalized. Preparations lengthened, and their rhythm accelerated....

"Without question, the single most important factor that encouraged the institutionalization of the summit after 1976 was steady pressure from the Americans. American emphasis on 'co-operative decisions' and summit 'follow-up' was already evident in Henry Kissinger's remarks before Rambouillet in 1975. This more structured approach to summitry reflected both institutional features of the American presidency and a national desire to share the burdens of world leadership. The American propensity for institution-building received a powerful boost from the Trilateralists' carefully elaborated theory about how to manage interdependence collectively. Throughout the Carter years it was the Americans who tended to press for more elaborate summit preparations and for greater specificity in the language of summit communiqués....

"...Conflict in the Western political economy arises, as we have seen, because of international inconsistencies among the policies of interdependent countries. In seeking to resolve such conflicts, summit participants have attempted four types of policy co-ordination:

- Mutual enlightenment, that is, sharing information about national policy directions.

– Mutual reinforcement, that is, helping one another to pursue desirable policies in the face of domestic resistance.

– Mutual adjustment, that is, seeking to accommodate or ameliorate policy divergences.

– Mutual concession, that is, agreeing on a joint package of national policies designed to raise the collective welfare...." (Putnam and Bayne, *Hanging Together*, pp. 48-49, 60, and 260.)

The Awesome Power of the Federal Reserve

"The Federal Reserve System was the crucial anomaly at the very core of representative democracy, an uncomfortable contradiction with the civic mythology of self-government. Yet the American system accepted the inconsistency. The community of elected politicians acquiesced to its power. The private economy responded to its direction. Private capital depended on it for protection. The governors of the Federal Reserve decided the largest questions of the political economy, including who shall prosper and who shall fail, yet their role remained opaque and mysterious. The Federal Reserve was shielded from scrutiny partly by its own official secrecy, but also by the curious ignorance of the American public." (William Greider, *Secrets of the Temple: How the Federal Reserve Runs the Country*, New York, Simon and Schuster, 1987, p. 12.)

Financial Power in the United States

"The legendary 'Wall Street' survived in one respect: New York City was still the center of financial power in America. Despite the rise of new banking centers in other regions, New York remained dominant, rivaled only by California. A crude map of the nation's financial concentration could be drawn from the locations of the largest commercial banks, the core institutions of the financial system. Across the fifty-states, there were more than fourteen thousand banks, but most of them were very small enterprises. Only one hundred and fifty or so banks held deposits of more than \$1 billion. In 1979, only sixteen banks held deposits totaling \$10 billion or more. Together, these sixteen mega-banks accounted for nearly one-fourth of all the bank deposits in the nation.

"The geography of financial power looked like this: eight of the sixteen largest banks were in New York. Five were in California. Two were in Chicago, one in Pittsburgh. A less arbitrary map might also include Boston, whose First National Bank (better known as the Bank of Boston) had \$8.7 billion in deposits, and Texas, which had four banks with deposits between \$4 and \$6 billion. In 1979, the nation's largest bank was the Bank of America in San Francisco (\$86 billion in deposits), but New York had much more aggregate girth than California, led by Citibank (\$70.5 billion), Chase Manhattan (\$49 billion), Manufacturers Hanover Trust (\$38 billion) and Morgan Guaranty (\$30 billion).

"Wall Street's banks were surrounded, moreover, by hundreds of brokerages and investment banking houses that traded stocks and bonds for clients, and, more importantly, raised large blocks of new capital for corporations and governments. A handful of these firms were large enough to be regarded as peers, if not quite equals, of the largest New York banks. Merrill Lynch, leader of the all-service brokers that tended large national client lists, managed \$70 billion in money-market accounts for more than one million customers. Even the largest brokerages, however, depended on the commercial banks as a source of credit, for loans to finance their own investment packaging in stocks and bonds and other ventures.

"The aristocrats of finance, more prestigious and powerful than their dollar volume indicated, were the major investment-banking houses – led by Salomon Brothers, Morgan Stanley, Merrill Lynch Capital Markets, First Boston, and Goldman, Sachs. Some declared their office suites to express the confidence of wealth – darkened paneling and fine old antiques, precious artwork and silver tea services for visiting clients. This is where the nation's most important corporations, along with state and local governments, came in search of capital for their largest projects.

"Capital formation – the flow of accumulated savings into the creation of new productive facilities – was arguably Wall Street's most important function. Capital formation fundamentally determined the distant future, the pace of expansion that created more products, new jobs and expanding incomes. From their lists of wealthy clients, both individuals and institutions, the investment bankers raised the billions lent for sewers or highways or hospitals, to pay for a new factory or the retooling of an old production line. Many ventures were so large that even the most important banking houses were compelled to collaborate with their competitors, pooling the capital each raised and sharing the risks and profits. In 1979, not an especially good year for capital markets, Salomon Brothers would raise \$17 billion for corporations through the sale of bonds and notes and another \$1 billion in new stock issues, plus \$17 billion in tax-exempt bonds for state and local governments across the nation. Like commercial banking, investment banking was highly concentrated. In 1979, the top five brokers managed 65 percent of the capital market, bonds and new stock issues for corporations. The top ten firms managed 87 percent.

"Finance was international, however, and all the largest banks and brokerages operated as multinational financiers. Like oil and wheat, wealth was fungible. It could flow across national boundaries without losing its value, seeking opportunities wherever it found the highest return at the least risk. While the major U.S. banks and brokerages dominated American finance, they were also players on a global stage where they did not seem so imposing. Of the twenty largest banks in the world, only three were American. Germany had six in 1979, Japan had five, France had four and Great Britain had two. The 16th largest bank on the American

map, Mellon Bank of Pittsburgh, was 114th in the global geography, hardly in a position to bully its international competitors.

"Banking power was less concentrated in the United States partly because America's pluralist tradition and federal law prohibited Citibank or Chase or the others from operating nationwide as the major foreign banks could. Collectively, however, U.S. finance was more powerful than other nations'. Nearly a fifth of the world's five hundred largest banks were American, and they were led and dominated by a mere handful of institutions – the nine largest known as the money-center banks, global institutions that operated worldwide and connected American finance to all the pools of international capital... (William Greider, *Secrets of the Temple: How the Federal Reserve Runs the Country*, pp. 25-27.)

The U. S. Financial System and the Federal Reserve

"...The largest borrower in the markets of Wall Street was the government in Washington, which managed a debt of nearly \$1 trillion, raised by government securities, from ninety-day Treasury bills to two-year notes to long-term bonds that would mature in 2009. In one dimension, Treasuries were the safest investment available. After all, if someday the U.S. government failed to pay its obligations, then the country would no doubt be in riotous anarchy anyway and no private property would be safe. In another dimension, however, government securities confronted investors with the same risk as other long-term issues – the risk of the dollar losing its value. The price of U. S. bonds, new and old, was, therefore, highly sensitive to the prospects of future inflation.

"All in all, the financial system resembled the dynamics of a pump house, not an accountant's static balance sheet, and functioned according to physical laws that a hydraulic engineer might understand. It was like a fantastically complicated labyrinth of pipes and storage tanks and boilers, with pressure valves and plumbing and auxiliary pumps, all elaborately interconnected. Inside this system flowed the financial wealth of the nation, back and forth through many channels and tanks, always seeking higher return and less risk, searching out investments that best promised both. To grasp the larger action of finance, one had to visualize its physics. Indeed, that is how financial analysts themselves spoke of it, using hydraulic metaphors to describe its conditions – the 'liquidity' of banks, the 'flow of funds' analysis, 'circulation' and 'float' and 'velocity,' the surge and ebb of 'market pressures.'

"The Federal Reserve Board stood alongside the system like a governor, like a supervising engineer who had the power to alter the flows inside the plumbing. Its decisions could slacken the pressures of the fluids or intensify them; its policies could stimulate the flow of lending or choke it off or nudge it toward different channels. The Fed accomplished this, primarily, by injecting more fluid into the system or withdrawing it – that is, by creating or destroying money. The ability to

create money was the power of sovereigns, almost magical in its simplicity. Central banks inherited the power from kings and, before them, the temple priests of ancient civilizations, leaders endowed by God with the authority to consecrate, *en fiat*, the currency their societies would accept and use. In the technocratic present, the process of money creation remained a powerful mystery to most citizens.

"The Federal Reserve System operated like the modern equivalent of the king's keep – a separate storehouse alongside the private economy and independent of its forces. But the Fed could influence the financial flows inside the plumbing through two tiny valves – mere pinpricks in size compared to all the wealth in circulation. One valve was the Discount window at each of the twelve Federal Reserve Banks, where commercial banks routinely borrowed hundreds of millions, even billions, every day to make up for temporary shortages in their required reserves. The other, more important valve was the Open Market Desk at the New York Federal Reserve Bank in the middle of Wall Street, where the Fed bought and sold government securities in the open market, in daily transactions usually running from \$500 million up to several billion. In both cases, the Fed created money with a key stroke of the computer terminal (computer accounting having replaced 'the stroke of the pen'). When the Federal Reserve bought Treasury bonds from a dealer or lent through the Discount window to a bank, the central bank simply credited the amount to the bank account of the dealer who sold the bonds or the bank receiving the loan. In either case, it did not matter which bank or which dealer got the new money. Once it was created, it increased the overall money supply and was free to float from one account to another through the entire banking system. In reverse, when the Fed's Open Market Desk sold bonds or a commercial bank repaid its Discount loan, money was extinguished by the Fed. By a simple entry in the ledger, the money was automatically withdrawn from circulation in the private economy.

"As any hydraulic engineer could explain, the impact from the Federal Reserve's actions-injecting or withdrawing money – depended entirely on what was already going on inside the plumbing. When the gauges on a boiler show that pressure is dangerously high, then the slightest hydraulic change can send a strong pulse throughout the system, a displacement that spreads like the ripples on a pond. The financial system was similar. If, for instance, the market demand for credit already exceeded supply and interest rates were rising, then a substantial withdrawal by the Fed would send rates soaring. On the other hand, if credit pressures were slack and interest rates were already falling, the same action might hardly be noticed.

"Day by day, the Federal Reserve exerted a powerful influence over Wall Street, but it was not all-powerful. It influenced everything, but it did not control everything. It could set the dials and turn valves, but it could not repeal the fundamentals of economics anymore than an engineer could suspend the laws of

physics. Sometimes, despite the Fed, markets pursued their own direction, driven by contrary perceptions or real economic forces that overpowered the desires of the Federal Reserve Board. Sometimes, trying to change the flow, the Fed turned the wrong valve and produced unintended results. Sometimes, it turned the valve and nothing seemed to happen.

"In Wall Street, therefore, everyone watched the Fed. Every bank and brokerage of any size had full-time economists – 'Fed watchers' like David Jones – who did nothing else. The scores of Fed watchers analyzed the weekly banking numbers, the credit trends and the general economic news and tried to predict Fed decisions ahead of the crowd. They made daily forecasts of the sales and purchases they expected the Open Market Desk to make, but, more importantly, they attempted to foresee the major 'sums' in Fed policy – easing the money supply and credit conditions or tightening. A significant change in direction would send large ripples across the three great financial markets, through the banking system and, ultimately, to the real economy of producers and consumers.

"Of the three great financial arenas, the money market reacted first to Fed moves. Short-term credit rates rose or fell, almost instantly, in reactions to even small changes in the money supply and the Fed's strongest, most direct control was over this market. In the stock market, a Fed 'sum' could launch a major rally or squelch it, but transient gyrations in the stock market did not much worry the Fed.

"The financial market that the Federal Reserve cared about most, respected and even identified with, was the bond market – the place where institutions and wealthy individuals made long term investments and their commitments were most sensitive to the distant future. If the Federal Reserve failed to maintain stable money values, then the bondholders suffered most dramatically." (William Greider, *Secrets of the Temple: How the Federal Reserve Runs the Country*, 1987, pp. 31-33.)

Japan – the World's Best Socialist Society

"Japan is really the world's best example of socialism,' a Nomura investment banker once observed. 'The Russians and the Chinese should come to Tokyo to find out how to mix a planned economy with a market economy. (Quoted in Daniel Burstein, *Yen! Japan's New Financial Empire and Its Threat to America*. New York: Ballantine Books, 1988, p. 106.)

Economic Warfare Among Nations

"Foreign trade is a war in which each party seeks to extract wealth from the other." (Honda Rimei (1744-1821), Japanese Philosopher. Quoted in David Burstein, *Yen! Japan's New Financial Empire and Its Threat to America*, p. 123.)

The Opening of U.S. Markets It is an Ill Advised Policy

"Opening American markets wider than any financial markets had ever been in world history, subjecting them to increased volatility and risk of every kind, and removing even the semblance of coordinated oversight was an ill-advised course under optimum circumstances. But the confluence of those policies with the rise of Japan as a financial superpower has written the recipe for the loss of American financial leadership." (Daniel Burstein, *Yen! Japan's New Financial Empire and Its Threat to America*, pp. 160-161.)

Japan It is the World's Richest Nation

"Japan became the world's richest nation, surpassing the United States in national assets for the first time with \$43.7 trillion worth of land, factories, stocks and other wealth." (*New York Times*. Quoted in Daniel Burstein, *Yen! Japan 's New Financial Empire and Its Threat to America*, p. 237.)

The World Will Be Dominated by a Small Group of Mega-Financial Institutions

"If we believe that the world in the year 2,000 will be dominated by a small group of mega-financial institutions, we must assume there will be many mergers and acquisitions along the way. Nomura's [Securities] capitalization is more than \$50 billion. It could buy the top ten American investment banks for that. Daiwa's [Securities] is also very big." (Daniel Burstein, *Yen! Japan's New Financial Empire and Its Threat to America*, p. 237.)

A Merger of Japan and the United States

"...[M]irroring America's economic decline will be Japan's continued rise, as its financial assets are turned into investments in new technologies and the complete renovation of its domestic infrastructure.

"Two alternatives are likely to present themselves as this contradiction intensifies. Either the United States will be forced to develop a much closer cooperative relationship with Japan, based on a more clearly defined shared agenda, or else the United States will be pushed into sharper conflict and rivalry with Japan.

"As to the first alternative, some strategists and economists both in the United States and Japan see salvation in the so-called *nichibei* economy – a merged symbiosis of Japan and the United States. The word itself is made up of two Japanese characters signifying sun and rice – Japan, the land of the rising sun, and America, land of amber waves of grain – rice, in the Japanese mind. The *nichibei* economy is already a reality in broad strokes: the United States provides Japan's defense, Japan enjoys access to American markets and invests its trade surpluses

back in the United States to help keep the economy going. On the brainstorming list of an upgraded *nichibei* accommodation are ideas like a transpacific common market, a joint U.S.-Japan currency, joint industries, and shared defense burdens.

"Thinking along these lines, former National Security Adviser Zbigniew Brzezinski has called for 'a new global bargain' and the evolution of his own version of *nichibei*, which he dubs 'Amerippon.' In Brzezinski's view this would take the form of 'an informal complex of overlapping elites, corporate structures, and increasingly joint political planning' with the United States and Japan effectively 'commingling...business and financial institutions.'

"C. Fred Bergsten, another former Carter administration official, has suggested the formation of 'G-2' – a joint U.S.-Japan approach to world leadership that would replace the unwieldy 'G-7 and G-5' groups that include other major Western powers. Crumbling American hegemony, Bergsten has suggested, could feasibly be replaced with the 'hegemony' of the United States and Japan leading the global economy together." (Daniel Burstein, *Yen! Japan's New Financial Empire and its Threat to America*, pp. 265-266.)

All Nations Are Loosing Their Independence

"This book [*Yen! Japan's New Financial Empire and Its Threat to America*]... has sketched out large forces at work reconfiguring the global map of wealth and power, triggering the rise of Japan's empire, and draining America of its economic vitality. The dangers of foreigners dictating American interest rates, practicing competitive trade policies that effectively undermine the solvency of large sectors of corporate America, and gaining disproportionate influence over strategic elements of American life from the banking system to the political process on Capitol Hill are not remote nightmares of the future, but increasingly visible realities of the present. As Felix Rohatyn suggests, America has already ceased to be an independent economic power.

"Economists may argue that all nations are losing some of their independence as the world melds into a single globalized economic realm. But as we have seen, what Japan needs from the United States is diminishing in importance; what the United States needs from Japan is growing in importance. The Japanese, moreover, are far more cautious than Americans when it comes to discarding systems that protect national interests. The result is a process of interpenetration that is actually working to make Japan stronger economically and the United States weaker. Globalization, in a sense, has become a code word for Japanese expansion at the expense of vested interests in the world, mostly American." (Daniel Burstein, *Yen! Japan's New Financial Empire and Its Threat to America*, pp. 293-294).

The United States Has Lost Control Over Its Economy

"At 9:30 a.m. on Monday, October 19, 1987, the bell rang on the floor of the New York Stock Exchange signaling the start of the most tumultuous day in the history of U.S. financial markets. A wave of sell orders that had built up over the weekend cascaded over the stock market, pushing its computerized trading system beyond the limits and driving the Dow-Jones Industrial Average down at an unstoppable pace.

"The chaos was repeated at the futures exchanges in Chicago, where harried traders could not keep track of orders, let alone keep up with them. Back in New York, the Federal Reserve Board was forced to demand that the nation's biggest banks provide billions of dollars in credit to keep brokerage houses open. In Washington, the nation's financial regulators conducted frantic telephone conferences in a fruitless attempt to stanch the financial hemorrhage.

"As news of the crashing markets spread, small investors across the country tried to call their brokers at Merrill Lynch and Prudential-Bache and countless other retail brokerages to dump shares at any price before they were wiped out. The sell orders were so vast that phone lines were jammed and thousands of people could not even get through.

"In this era of the global economy and instantaneous communications, the panic spread, and stock markets in Tokyo, Hong Kong, Sydney, and London quivered and prices plummeted.

"By the end of what quickly became known as Black Monday, John Phelan, chairman of the New York Stock Exchange, was saying that the nation's markets had nearly suffered 'a meltdown,' appropriating the terminology of a nuclear disaster to describe a momentous financial disaster.

"The New York Stock Exchange dropped 508 points in a single day, losing 22 percent of its total value and wiping out \$1 trillion worth of wealth. An incredible 604 million shares were traded, three times the volume of a heavy day and double the previous one-day record. The reverberations continued throughout the week.

"For millions of Americans, October 19, 1987, came to symbolize the new vulnerability of their once-invincible nation. It was one of those rare days in history when the shift in power from one empire to another can be marked, precisely and indelibly.

"Behind the stock market crash was a bitter lesson for the United States, a lesson that still has not been learned by the nation's business and government leaders. The crash demonstrated dramatically that the United States has lost control over its own economy, that decisions made in Tokyo can affect the standard of living and well-being of millions of Americans.

"Commissions and panels were created to search for causes in the wreckage of the crash, and they found plenty of villains among the professional speculators and giant institutional investors who had pumped up the market like a giant balloon and then abandoned it in a matter of hours.

"But none of the reports put the official blame on the shoulders of the Japanese investors whose actions had triggered the collapse. The nation's financial markets and the very financing of the federal debt had become too dependent on the Japanese to risk the repercussions of placing responsibility on the investors they had been wooing throughout the 1980s.

"The United States has become addicted to foreign investment....

"No country has invested at the pace of the Japanese, who are benefiting from their own huge trade advantages and basic thriftiness. And no country has carried out its investments with the strategic mandate that motivates the Japanese. As a result, they have gained enormous leverage over certain sectors of the American economy, a fact demonstrated clearly by the stock market crash of 1987....

"But by October 1987, Japanese investors were the dominant players in the U.S. bond market. They basically financed the rising federal deficit by loaning money to the U.S. government through their purchases of treasury bonds. And they were able to push it to the brink of collapse.

"The crash was a graphic example of what happens when a nation loses economic sovereignty to an outside power, even a friendly one. It was a lesson in the perils of the rising levels of foreign investment in the United States, particularly the concentrated investments being made by the Japanese.

"Foreign investment evolves from benign to dangerous when decisions affecting a nation's economic, political, and military destinies are made in foreign capital cities. With it comes a loss of sovereignty, putting the nation in danger of becoming a colony of its foreign owners.

"It is quite possible that within a decade, the United States will find itself in the position of being a satellite of the powerful industrial machine of Japan. When that happens, the life of every American will be touched by the power of foreign investment, from conditions on the job to the cost of a home mortgage.

"Already the United States is a poorer nation because of the vast amounts its citizens owe foreign investors. Real earnings of workers have fallen, and health, retirement, and vacation benefits are less generous than they once were. Although the productivity of U.S. workers has risen about 6 percent since 1977, real hourly wages have dropped 6.5 percent.

"Already the growing U.S. foreign debt has made the country more vulnerable to pressure from foreign investors that influence U.S. interest rates, the value of the dollar, economic stability, political policy, and employment patterns....

"The position of the United States as the world's largest debtor worsened dramatically in 1987, largely as a result of increased foreign investment to finance the federal government's deficit spending. That means a larger portion of the national income will have to be earmarked to pay the interest for years to come. A mammoth foreign debt creates a chronic drain on the vitality of the U.S. economy and strengthens the power of the foreign nations that hold U.S. debt and use their cash surpluses to acquire more and more U.S. industrial facilities and real estate....

"Since the late 1970s, American corporations have abandoned core businesses, often selling them to foreigners. They have lost their technological edge in industry after industry to foreign companies. As a result, the standard of living of most Americans has declined. Average wages have fallen, the gulf between rich and poor has widened, and foreign investors have gained unprecedented control over the nation's future.

"No nation holds more leverage over the United States than Japan, which increased its U.S. investments faster any other foreign country in the 1980s.

"For unlike the United States, when corporate plans are measured by the year or the quarter, the Japanese have a centuries-old tradition of thinking twenty or thirty years ahead. This ability enables them to foresee causes and effects of economic policies and manufacturing decisions from a perspective not used by Americans. It allows them to be patient in laying the groundwork for economic domination of the United States. (Douglas Frantz and Catherine Collins, *Selling Out: How We Are Letting Japan Buy Our Land, Our Industries, Our Financial Institutions, and Our Future*, Chicago: Contemporary Books, Inc., 1989, pp. 5-6, 7, 9-11.)

Foreign Investment in the United States

The 1987 data showed that the British remained the biggest direct foreign investor in the United States, meaning they owned the greatest amount of tangible items, such as factories and real estate. The Netherlands was second, partly as a result of investment that flows through the secrecy haven of the Netherlands Antilles that could actually belong to anyone in the world.

"Japan replaced Canada in third place in direct investments at the end of 1987, according to Commerce Department statistics....

"Further, because Japan lacks the rich soil of the American breadbasket and the oil fields of the Arab nations, its exports must be manufactured goods in exchange for the raw materials it simply doesn't have. Thus, the Japanese are compelled by the simple need for survival to conquer the world's markets with their export-

driven economy. The largest of those markets is the United States. And what could be a better way to conquer an economy than to buy it?

"And they have bought huge chunks of the United States' choicest real estate and invested in its most influential and vital industries.

"Investors from the Land of the Rising Sun have gobbled up huge portions of the most desirable land in Hawaii. They own three-fourths of the beachfront hotels in Honolulu, and in 1987 they bought four out of every ten condominiums that went on the market along world-famous Waikiki Beach. They are buying office buildings and golf courses. And the biggest development project in the history of the islands – the \$3 billion Ko Olina resort – is a joint venture between a local businessman and the deep-pocketed Japanese construction giant, Kumagai Gumi.

"There is a joke on the islands: Two captured Japanese officers are surveying the wreckage of Pearl Harbor. One Japanese officer says to the other, 'Next time, we'll just buy Hawaii.'

"Downtown Los Angeles is 70 percent owned by foreigners, and half of those foreign-owned towers belong to the Japanese. The imprint of the Japanese on the city's skyline will be felt most strongly when Mitsui Fudosan completes a fifty-two-story structure of polished Brazilian and Swedish granite on the most prestigious location in the Los Angeles business district, the corner of Wilshire and Figueroa. Japanese investors own the buildings that house Bank of America's headquarters in Los Angeles as well as the West Coast headquarters for New York's Citicorp and Chase Manhattan banks.

"Far more importantly, the Japanese own five of the ten largest banks in California, which has the richest state economy in the United States, with an output that makes it the eighth largest economy in the world. By 1988, an estimated 100,000 Californians worked at nearly 1,000 U.S. subsidiaries of Japanese companies....

"Hawaii and California, with their view toward the Pacific Ocean and their cultural diversity, are the favorite investment havens for the Japanese; estimates of Japanese holdings in those two states range as high as \$7.2 billion in Hawaii and \$7 billion in California.

"But rather than the stopping point, those two states are only the beginning of the Japanese investment invasion. Across the United States, they own skyscrapers in any city worthy of having a tall building. Of the fifteen largest purchases of existing office buildings by foreigners in the United States since 1986, all have been by the Japanese. They have included the \$640 million acquisition of Arco Plaza in Los Angeles by Shuwa Investments and the \$610 million Exxon Building in New York City by Mitsui Fudosan. Both were the highest prices ever paid for buildings in the respective cities.

"In Chicago alone, the Japanese have bought or built thirteen major downtown buildings in recent years. Nissei Realty paid \$141 million for the forty-one-story Prudential Plaza in 1986 and announced plans to finance a sixty-four-story tower next door. Dai-Ichi Kangyo Bank, the world's largest bank, paid about half that amount for an office building at 101 Wacker Drive. Another giant Japanese bank, Sumitomo Trust, paid \$50 million for the Xerox Center in the heart of downtown Chicago, and a joint venture between a Japanese life insurance company and a Japanese bank expects to complete the \$360 million AT&T Corporate Center in downtown Chicago in 1989.

"Late in the summer of 1988, Kato Kagatsu, a Japanese corn syrup firm, struck a deal to acquire the 2,000-room Chicago Hyatt Hotel, one of the world's largest, for \$260 million.

"'American real estate is cheap, especially to Japanese firms and families,' said Robert Aliber, professor of international economics and finance at the Graduate School of Business at the University of Chicago. 'The Japanese came into Chicago tepidly at first, and now are moving more aggressively.'

"In New York, Japanese interest have acquired at least a dozen major office buildings and hotels in Manhattan. The 1987 acquisitions alone included a \$670 million interest in two of Citicorp's Manhattan office buildings by Dai-Ichi Mutual Life Insurance Company; 666 Fifth Avenue, \$500 million, Sumitomo Realty and Development; 919 Third Avenue, \$325 million, Nomura Securities, and the Essex House hotel on Central Park South by Nikko Hotels, which also developed a giant river front hotel in Chicago.

"In Washington, the list is almost as long and includes such transactions as Nissei Realty's purchase of the American Medical Association building at 1101 Vermont Avenue NW for \$367 million; Mitsubishi Bank's development of a \$200 million office complex called Washington Square on Connecticut Avenue NW; and the \$87 million acquisition of Judiciary Center at 555 Fourth Street NW by the investment firm of Kondo Bosekei.

"Shuwa Investment's \$80 million purchase of the U.S. News and World Report complex in Washington in 1987 amounted to \$480 per square foot, the highest per-square-foot price ever paid for a building in the nation's capital.

"At the end of September 1988, the Japanese made their largest single acquisition of American real estate – the worldwide Inter-Continental Hotel group for \$2.27 billion in cash....

"A report by the Los Angeles-based accounting firm Kenneth Leventhal & Co. said Japanese invested in real estate ventures worth \$13 billion in 1987 alone, bringing their total U.S. real estate holdings to \$26 billion. The study predicted that

Japan's real estate investment in the United States could rise by another \$19 billion in 1988.

"While real estate is often the most visible Japanese investment, it is not the one that raises the most concern for the nation's sovereignty. The real estate will remain here, regardless of what the Japanese do or where they go.

"The truly dangerous penetration of the American economy comes from Japanese investments in financial services companies and manufacturing plants. It is there acquisitions that represent the opportunity to wield power and influence.

"Japanese financial firms have purchased big stakes in some of Wall Street's most respected investment houses, most notably Goldman, Sachs & Co., Salomon Brothers, and Paine Webber. Japan is now home to all ten of the world's biggest banks, and every major U.S. city has branches of the dominant financial institutions. No. U.S. bank ranks among the world's twenty-five largest....

"Clearly the Japanese are not the only foreigners filling up their shopping carts in the United States. Great Britain, the Netherlands, Canada, West Germany, Switzerland, France, Kuwait, Saudi Arabia, Australia, and Sweden have traditionally made forays into the U.S. economy, taking advantage of America's addiction to foreign capital and its openness to foreign investment. They have taken over factories, advertising agencies, farms, mines, dairies, publishing companies, and casinos.

"Some of the most common names on American grocery shelves – and sometimes, the shelves themselves – are actually owned by foreigners. Alka-Seltzer is owned by West Germans, who also have a controlling interest in the A&P Grocery chain. West Germany's Bertelsmann communications firm paid \$500 million for Doubleday & Company. Stouffer, Beach-Nut, Carnation, and Beringer Vineyards – which was founded by one of the half-dozen original Napa Valley families – are owned by Nestle, the Swiss conglomerate. The French own big stakes in Mack Trucks and American Motors. Timex is owned by Norwegians. Santa Fe International, a leading energy company, is owned by Kuwaiti investors.

"Saudi Arabia spent \$1.2 billion in June 1988 to buy half of three Texaco refineries, 1,450 gas stations owned by Texaco, and a distribution network of more than 10,000 independently owned Texaco-brand stations in twenty-three states in the southern and eastern United States.

"In the biggest acquisition yet by a British firm in the United States, British Petroleum Co. paid \$7.4 billion for the 45 percent of Standard Oil Co. it did not already own in 1987. The purchase was only one of several huge acquisitions that helped the British remain the biggest foreign investors in the United States in 1987.

"A year later, British-owned Batus agreed to pay \$5.2 billion to acquire the Los Angeles-based Farmers Insurance Group, the biggest acquisition in California history and a deal that caused a ripple of concern among industry regulators in several states where Farmers does business.

"The drive by the British to repurchase their former colony was strong in 1987 and 1988. Within days of each other in 1987, for example, two deals allowed Britain to replace the United States as the world's premier owner and operator of quality hotels. Allegis Corporation sold Hilton International to the British-owned Ladbroke Group, and Bass PLL took over the international network of Holiday Inns from US Holiday Corp.

"At the same time, Hanson Trust, one of Britain's top ten companies, consumed the New Jersey-based Kidde, Inc., including its assets of Jacuzzi whirlpools and Farberware kitchenware. Hiram Walker of Canada, a subsidiary of the British conglomerate Allied-Lyons, also owns one of California's largest wineries, Clos du Bois. The British also own Smith & Wesson handguns, Ball Park Franks, and a part of Washington's famed Watergate complex.

"Canadians have vast investments in U.S. newspaper, magazine, and book publishing and cable television. Just two Canadian corporations, Thomson Newspapers and International Thomson Organization, own 100-plus newspapers and forty publishing subsidiaries. Seagram, the Canadian brewer, acquired Tropicana Products from Beatrice Companies. And in a hotly contested battle with R. H. Macy over Federated Department Stores in 1988, Canadian developer Robert Campeau paid \$6.6 billion for a retailing and real estate empire that included sixteen branches of Bloomingdale's and 549 other stores. A Canadian company already owned Brooks Brothers clothiers.

"The determination of these foreign bargain hunters was demonstrated by Michael Dornemann, a director of West German publishing giant Bertelsmann AG. He flew to the United States more than fifty times between 1984 and 1986 while deciding how to invest \$1 billion in his company's shopping spree. He visited more than twenty American firms before selecting two targets, RCA record and Doubleday publishing.

"Although Dornemann thought the possibility of acquiring both companies was extremely unlikely, he wooed publisher Nelson Doubleday and John Welch, the chairman of RCA parent General Electric, diligently. Finally, having acquired neither by September 1986, he arranged separate meetings with each company on the same day and he gave the impression that his company could afford to buy just one. 'Either you sell to us, or we'll go to the others,' each company was warned. By the end of the day, Dornemann had a double victory: both companies for a total price of \$805 million.

"Still it is the Japanese who have poured the most money into the United States in recent years, spurring soaring real estate values and turning Main Street Midwest into a virtual subsidiary of the Japanese auto industry....

"For one thing, it is growing much faster. The amount invested in the United States by the Japanese nearly tripled from 1980 to 1985, and the pace of investment has been faster than that of any other foreign nation since 1984. Figures compiled by the U.S. Commerce Department for 1986, while incomplete, illustrate the trend.

"In 1986, Japanese private and government direct investments here outstripped those of any other nation. Of the 1,051 reported transactions, 351 originated in Japan. The total Japanese investment amounted to \$9.3 billion on 170 of those deals, and the government failed to list amounts for the remainder. Great Britain was second with 178 transactions and 83 identified values totaling \$8.1 billion. Canada was third with 114 transactions and 57 identified values totaling \$6.8 billion.

"At the end of 1987, the Japanese were third in total investments in the United States behind the British and the Dutch. Once the final figures are in for 1988, many experts predicting that the Japanese will have surpassed the Dutch to rival the British as the leading foreign owners of the United States.

"Second, the strategy is different from that of other foreign investors. The Japanese are not interested in simple return on their capital or in the type of passive, safe haven Arabs sought for their oil dollars in the 1970s.

"The Japanese are determined to buy access to a country where growing sentiment for trade protectionism threatens to shut them out. In addition, the Japanese also exhibit a definite tendency to target either a geographic area – Hawaii, for instance – or a specific segment of the economy – the auto manufacturing and related parts industries, for example.

"While the strength of the yen made it less expensive for Japanese companies to invest abroad and triggered much of the surge in the late 1980s, the Japanese also diversified, buying more foreign corporations and investing in research and development projects abroad.

"Japanese investments are no longer relegated to securities and government bonds and traditional real estate. They have switched to direct seizures of power by purchasing control of companies. That fact becomes important when coupled with the growth rate of Japanese investment here.

"A 1988 survey of Japan's Economic Planning Agency documented the expansionist drive. After years of shunning takeovers, one out of every three big

Japanese companies planned to expand into foreign markets during the year by purchasing existing companies. The market of preference: the United States.

"More than any other nation, Japan is buying the United States with America's own dollars. The huge trade surplus racked up in Japan is being used to buy control of the world's richest consumer market.

"There is another difference, and it may be the most critical. Decades of European investments in the United States have been the result of a free flow of trade; with some exceptions and more restrictions than Americans apply, European nations tend to be open to foreign investments.

"But the Japanese are taking advantage of the U.S. commitment to free trade while maintaining the industrialized world's most stringent restrictions on foreign access to its markets. For instance, while Japan's giant construction firms built more than \$3 billion worth of projects in the United States in 1987 alone, U.S. firms have been virtually shut out of the construction market in Japan....

"But throughout those decades, the United States maintained an open door to foreign investors while the Japanese have marked their nation with a 'No Trespassing' sign....

"It is essential to recognize that foreign investment in the United States, particularly the strategic purchases by the Japanese, threatens to rob the nation of the ability to control its economic and political destiny. Decisions affecting the jobs of millions of Americans and the health of the economy will be made in Tokyo, not Washington.

"The dilemma may have been best stated by Clyde V. Prestowitz, Jr., former counsel on Japan affairs at the U.S. Commerce Department and author of the excellent 1988 book *Trading Places: How We Allowed Japan to Take the Lead*. At a breakfast with *Los Angeles Times* reporters in Los Angeles in May 1988, Prestowitz was asked about the impact of Japanese investment on U.S. competitiveness, and he said: 'Let's remember that British investments in India turned it into a colony.' (Frantz & Collins, *Selling Out*, pp. 20, 21-22, 23-24, 26, 27-29, 30-33.)

The Emergence of Japan as a Powerful Economic Force in the World

"The pivotal year in the American decline was 1985. For the first time since 1914, the United States became a debtor nation. Just three years earlier, in 1982, the United States was the world's largest creditor nation. But the figures released in 1985 by the U.S. Commerce Department showed that, for the first time since before World War I, the amount of U.S. assets owned by foreigners exceeded the amount of foreign assets held by U.S. investors. And the difference was not small:

foreigners owned \$111.9 billion more in U.S. assets than U.S. investors held in foreign assets.

"The deterioration continued. By 1986 the figure more than doubled. Foreigners held \$1.331 trillion in assets in the United States, while U.S. investors owned \$1.068 trillion in assets overseas, for a difference of \$263.65 billion. In 1987, the difference jumped another \$100 billion.

"By simple terms, that means the United States, like Mexico, Brazil, and a host of other lesser developed countries, took in more foreign capital than it invested abroad.

"The United States has become what Rohatyn called 'a classic model for a failing economic power: increasing levels of foreign debt, a constantly depreciating currency, and a continuing negative trade balance almost regardless of currency levels.'

"This huge international debt means that the standard of living in the United States will decline as the country is forced to make interest payments to foreigners.

"By 1988, the federal government was already paying \$24 billion in interest to foreigners, more than it spends on schools. And interest rates were higher because the United States had to lure foreign investors to finance its profligate spending.

"'We are much like a wealthy family that annually sells acreage so that it can sustain a lifestyle unwarranted by its current output,' Warren Buffett, the legendary investor from Omaha, Nebraska, told *Fortune* magazine in May 1988. 'Until the plantation is gone, it's all pleasure and no pain. In the end, however, the family will have exchanged the life of an owner for the life of a tenant farmer.'

"Or, as Congressman John Bryant, a Texas Democrat, put it: 'America has been selling off its family jewels to pay for a night on the town.'

"During the U.S. decline, Japan emerged as the world's most powerful economic force. IN industry after industry, from automobiles to machine tools to electronics, the Japanese knocked the Americans out of first place in the world. In late 1985, when the United States surpassed Brazil and Mexico and became the world's biggest debtor nation, Japan emerged as the world's largest creditor. Japan's governmental and private holdings abroad surpassed those of Britain and other industrialized nations.

"Richard Rosecrance of Cornell University predicted in 1988 that 'If things continue as they are now, it won't be much beyond 2010 before Japan becomes a leading power in world politics.'

"Statistics tell the story. In 1950, Japan had only 1 percent of the world's exports, and it was a follower in world trade. Not blessed with an abundance of natural resources, Japan imports mineral fuels, crude oil, industrial raw materials, and foodstuffs and grinds them through the machinery of its high-powered economy to export high-tech scientific, electronic, and transportation equipment. Japan's leading exports are autos, communications equipment, audiovisual equipment, office equipment, scientific and optical instruments equipment, and ships.

"As the end of the 1980s approached, Japan had done far more than simply catch up; its share of world trade had grown tenfold, and it had built a trade surplus of \$100 billion.

"Much of that surplus was in dollars, for Japan's success came at the expense of the United States. Import-hungry American consumers have been spending billions of dollars on Japanese cars and video equipment while the nation's manufacturers were buying sophisticated components from Japan. The Japanese then use the surplus dollars to step up their direct investments in the United States.

"'Basically, the VCRs and the Toyotas are coming back,' explains David G. Shulman, director of real estate research at Salomon Brothers in New York.

"America's fading dominance began to cause fear of this rising ride of foreign investment, which in turn fueled calls for controlling foreign purchases and setting up quotas to protect American industries from the threat of foreign competition, particularly the Japanese.

"The Japanese were predictably concern about the threat of protectionism and bashing of their interests in the United States. They responded by stepping up a relatively new trade pattern: setting up plants in the United States. Much of the increase in Japanese investment in the United States has come in the form of new factories or acquisition of existing U.S. plants.

"It's like an insurance policy: Japanese industries evade restrictions on imports by manufacturing goods in the United States through subsidiaries, and thereby also avoid being damaged by the falling dollar. There is also the added benefit of using their U.S. operations to increase their share of the nation's market without boosting the U.S. trade deficit. Such concerns were on the minds of Toshiba executives when the Japanese electronics giant decided to expand in the United States.

"'We first started talking about moving our personal computer production to the United States three years ago,' Daniel M. Crane, vice president for marketing at Toshiba America in Irvine, California, said in late 1987. 'We wanted to insulate ourselves from currency fluctuation; we wanted to be an insider.'

"The increasing presence of Japanese goods in the United States has been referred to as 'judo economics,' a policy that deflects protectionist pressure because of Japan's huge strength in U.S. markets. Often when the United States tries to retaliate against Japanese companies for violating international trade rules, the U.S. actions must be softened because its domestic economy is hurt, too, as demonstrated in the Toshiba incident.

"This is all part of a long-term plan being followed by Japanese corporations driven by the necessity of exporting. The initial phase called for grabbing a big share of the U.S. markets, frequently by reducing prices sharply and sometimes settling for a loss on exports. Establishing a capability in the United States to assemble components made in Japan and thus evade protectionism is the second phase. And the third will be shifting full manufacturing to the United States, including setting up an array of Japanese suppliers to ring its big manufacturing plants. (Douglas Frantz and Catherine Collins, *Selling Out*, pp. 39-41.)

Identifying Foreign Ownership in America

"John Bryant first became interested in foreign investment while serving as a state legislator in Texas in the 1970s. The issue surfaced when Arab investors were believed to be behind the purchases of large parcels of agricultural land in the state.

"When Bryant tried to trace the source of the purchases, he found that most owners were hiding behind a screen of dummy corporations registered in the Netherlands Antilles, a Caribbean haven for investors and other moneymen seeking anonymity. The U.S. Agriculture Department listed 270,000 acres of Texas agricultural land owned by residents of the Netherlands Antilles – one acre per man, woman, and child on the tiny island. Bryant was dubious.

"Most significantly, Bryant was amazed at the ease with which a foreign investor could conceal his identity under U.S. law. He discovered what anyone who makes the seemingly simple inquiry "Who bought what and for how much?" discovers: there is no single U.S. agency tracking such information, collating it, or analyzing it. Although private organizations and individuals have tried to study foreign investment, their efforts are stymied from the start because of the lack of complete information....

"After Bryant was elected to Congress in 1982 from a district that included downtown Dallas and some affluent suburban neighborhoods, he was determined to create a more thorough mechanism for monitoring foreign investment....

"Bryant's initial legislation was more than a simple 'signing in at the door.' The measure would have required foreign investors to register each new investment publicly with the Department of Commerce, disclosing their true identities, nationality, the purchase price of the investment, and their source of financing.

"These requirements amounted to no more than what publicly held American corporations must divulge in annual reports to the U.S. Securities and Exchange Commission or whenever they make a new acquisition. And the requirements were still far less than what most other nations demanded of Americans when they invested abroad. But the proposal would generate outrage from foreign investors and their supporters.

"A more significant element of the proposed legislation was the reciprocity section. It would have prohibited investment in American assets by foreigners unless Americans were permitted to invest in the investor's home country on the same terms.

"Testifying at a committee hearing on his proposal on May 8, 1986, Bryant said, 'As ownership of our economic assets is transferred overseas, so is the power to make decisions affecting the independence and prosperity of Americans. Foreign access to sensitive high technology and research capabilities narrows our strategic and competitive edge. Foreign influence in vital energy and defense industries may endanger our national security; our oil industry is particularly vulnerable at this time. And our economy is becoming so dependent on foreign capital that many respected economists warn that its sudden withdrawal could send us into an economic tailspin.'

"The Reagan administration, which had financed the deficit with big help from foreign investors, was steadfastly opposed to the legislation. Officials from various government agencies countered that Bryant's amendment was, at best, redundant and that current efforts to monitor investment were adequate. They objected to the reciprocity section on the grounds that enforcement would create a bureaucratic morass and place American businesses abroad at risk of reprisals.

"In an apparent coup, Bryant had arranged for supportive testimony from Richard Perle, assistant secretary of defense for international security and a leading voice for the administration on arms matters. However, on the morning of the day his testimony was scheduled, Perle's secretary telephoned to say that he had a conflicting appearance in the Senate and would be unable to appear.

"George Slover, Bryant's legislative counsel at the time, later explained what had happened: 'We knew from things he had said publicly in the past that Perle was very concerned about foreign investment and how little we know about it. There was no official explanation, but what we heard later was that his testimony was not approved by the Office of Management and Budget. It wasn't approved because it didn't toe the party line.'

"Opposition to the proposal centered on the reciprocity section, so in January 1987, Bryant submitted a new version to the House that was titled the Foreign Ownership Disclosure Act. The reciprocity section had been dropped, and Bryant was able to line up thirty-one cosponsors.

"In March, the measure was attached to an amendment to the omnibus trade legislation then under consideration in the Energy and Commerce committee. The bill was adopted by the narrow margin of 21 to 20, after fierce opposition from every Republican on the committee.

"There was a further modification of the disclosure section: it would apply only to the big players, foreign investors with a 'significant interest' of more than 5 percent in any U.S. business or real estate property with assets of more than \$5 million or annual sales of more than \$10 million, and those with a controlling interest of 25 percent or more in a U.S. business enterprise with assets or annual sales of more than \$20 million. The information required would be simpler: identity, nationality, address, date interest was acquired, percentage of investment and purchase price, name and location of U.S. property, and terms and conditions of acquiring interest.

"The amendment included severe penalties or noncompliance and stipulated that the information would be public, indexed by name, nationality, and industry of the foreign investor and by name, state, and industry of the U.S. property.

"Until its passage as part of the trade bill by the Energy and Commerce Committee, Bryant said, his amendment had benefited from Congressman Richard Gephardt's more controversial proposal for trade reciprocity, which distracted the administration from the Bryant measure.

"But once the bill passed the committee and headed toward the floor of the House, the amendment met with vigorous lobbying from a variety of sources with links to or dependencies on foreign investment. Among those fighting the measure were First Boston, the New York investment bank owned in part by a Swiss bank, Credit Suisse; Shell Oil, a wholly owned subsidiary of Royal Dutch shell; and the White House.

"J. D. Williams, a high-powered Washington attorney representing First Boston, called on Bryant to express his concerns about the amendment. He used the good-old-boy routine, cautioning Bryant in a friendly fashion, 'I've been around a lot longer than you, son. If we have to, we can stop you. Too bad, son.'

"In Washington, there is no better measure of a proposal's significance than the amount of money its opponents are willing to spend to defeat it. And the Bryant proposal caused plenty of spending, though there is no way to determine precisely how much. But the list of corporations, domestic and foreign, lined up in opposition to the proposal reads like a *Who's Who* of business in the United States: the American subsidiaries of the Big Three Japanese automakers, Honda, Toyota, and Nissan; British-owned Standard Oil; Swiss multinational Nestle; American Express, the biggest U.S. financial services company; Fujitsu; and even the U.S. Chamber of Commerce.

"Slover fielded more than 100 telephone calls himself from representatives of foreign investors and governments in a six-week period. Most of the callers were lawyers who refused to say which foreign investors or corporations they represented.

"The world on the street was that more money was spent on defeating the Bryant amendment than on both sides combined on any other provision to the trade bill,' said Slover. 'But it was all very quiet. The foreign lobby did not want to arouse any public sentiment. It would be virtually impossible to stir up any grass-roots support for keeping foreign investment secret.'

"Ultimately, the concerns of Shell Oil and First Boston and other big foreign investors were satisfied by a round of modifications. But the Reagan administration kicked its lobbying efforts into high gear and called up heavy hitters such as Paul Vocker, then chairman of the Federal Reserve, and Treasury secretary James Baker to lead the charge.

"As soon as the amendment hit the full committee, Baker started working the Congress hard,' Bryant said. 'For someone who usually calls on chairmen of the various committees, Baker walked the halls of Congress, calling on members, like a common lobbyist.'

"...Bryant began looking for a Senate sponsor. Several senators expressed interest, but then backed off in the face of political pressure. Finally Senator Tom Harkin, a Democrat from Iowa, took the ball.

"Lobbying intensified in the Senate, where representatives of blue-chip foreign and American multinationals joined in opposition with some of Washington's most powerful law firms – on the payroll of foreign corporations and governments – trade organizations, foreign ambassadors, and of course, the White House.

"One lobbyist representing a large multinational corporation called Senator Harkin's office and threatened, 'How would you like it if we pulled everyone right out of Iowa?' An amused member of Harkin's staff said the threat was not taken seriously, and Harkin didn't waver.

"Gary J. Campkin, director of international affairs for the Confederation of British Industry, sent a dragooning letter to the Metrocrest Chamber of Commerce, located in a district neighboring Bryant's outside Dallas. Leaving all subtlety aside, Campkin wrote that if the Bryant amendment were to become law, 'its effect would be to impact negatively on British operations in the United States and also to deter new and future investment proposals. This in turn would mean less job opportunities and economic benefits in the U.S. In addition it opens the door to retaliatory and mirror actions by other countries which could affect British and American investments.'

"Foreign ambassadors threatened that such legislation would send their investors and their money elsewhere. The White House claimed it would undermine the president's efforts to break through other countries' trade barriers.

"Surprisingly, there was also opposition from many American business groups, such as the U.S. Chamber of Commerce and the National Association of Manufacturers. Adopting one of the administration's lines, they said they were worried that foreign governments would retaliate by imposing harsher reporting requirements on U.S. firms in their countries.

"Harkin, speaking on the Senate floor, addressed that brand of reasoning as well as the concerns over chasing away foreign investment: "There are those who say that this bill will discourage foreign investments. I take issue with that. business people bring their money here because it is a good place to invest and because they can make money in this country. Who is concerned with anonymity? Drug traffickers, the PLO, other foreign investors who do not want us to know how much they are acquiring on certain sensitive businesses in this country?"

"Harkin argued that no legitimate business would be afraid to disclose the information required by the Bryant amendment. He pointed out that the disclosure was neither more nor less than required of publicly owned U.S. companies.

"He concluded by crystallizing the danger posed by the laissez-faire attitude toward foreign investment: "The short-term advantages of foreign investment should not prevent us from considering the potential long-term effects on our economy and our national security. Over time, as ownership of our assets is transferred overseas, so is the authority to make important business and economic decisions affecting the prosperity and independence of our nation."

"The threats by foreign companies to abandon the United States and the fears that investments would be withdrawn, however, carried the day. The opposition won a clear victory, sending the proposal down to defeat by a vote of 83 to 11.... (Douglas Frantz and Catherine Collins, *Selling Out*, pp. 45-46, 48, 49-52, 52-54.)

Japanese Buy Influence in Washington, D.C.

"The defeat of the Bryant Amendment and the evisceration of the Toshiba sanctions only hint at the power of the network of paid influence peddlers who work on behalf of the Japanese in Washington and in state capitols across the country.

"In 1988, 152 Japanese companies and government agencies hired 113 firms to represent them in Washington. The next most-represented country was Canada, with 61 organizations representing its interests, followed by the British, with 44.

"Indeed, as Japanese investments in the United States have increased, so has Japan's determination to protect those interests by trying to shape U.S. policy through paid lobbyists, campaign contributions by American subsidiaries, public-relations and advertising campaigns, and even charitable contributions.

"Overall, Japan's government, foundations, and corporations spent at least \$310 million on a range of activities from lobbying to sponsoring public television programs aimed at influencing U.S. opinion, according to an estimate by *Business Week* magazine.

"They are interested in creating an environment in which they can make money,' Bernard Karsh, director of the Center for East Asian Studies at the University of Illinois, told *Business Week*. "I see this as a major effort to come in and stay, to legitimate their presence.'

"It should come as no surprise that the Japanese and other citizens of foreign nations want to safeguard their interests by shaping U.S. policy and influencing debate on issues critical to their well-being. Quite surprising, however, is the cooperation provided to them by dozens and dozens of former high-ranking U.S. government officials who are willing to serve as hired guns for these foreign nations.

"The list reads like a *Who's Who* from the White House to the Department of Commerce to Congress. Senior statesman Elliot Richardson, who has held three cabinet posts and more than a dozen other high-level government positions, represents foreign interests, including an umbrella organization known as the Association of Foreign Investors in U.S. Real Estate.

"James H. Lake, a key adviser to George Bush's presidential campaign, has been one of the most effective lobbyists for Japanese and European interests because of his close ties to the U.S. trade representative's office. During a six – month period in 1987, he met or spoke with U.S. trade representative Clayton Yeutter or his assistants twelve times on behalf of Mitsubishi Electric Corp., just one of his firm's Japanese clients. Mitsubishi paid the firm \$129,000 during the period.

"Richard Allen resigned as national security adviser to former President Ronald Reagan after disclosures that he had accepted funds from Japanese interests. During a Justice Department investigation that determined he did not engage in any illegal activity, Allen acknowledged that during his time as national security adviser, he met with Japanese auto firms while the United States was negotiating import quotas for Japanese automakers. Immediately after leaving government, Allen opened a firm that represented Japanese interests.

"George Bush's former chief of staff, retired Admiral Daniel Murphy, works for a powerful public relations firm, Hill & Knowlton, as head of its international

division. Some of Japan's largest companies are clients of the firm, including Hitachi and the Electronic Industries Association of Japan.

"Peter G. Peterson, chairman of the Blackstone Group, a Wall Street firm with major Japanese clients, is a former commerce secretary and also former chairman of the Council of Foreign Relations and the Institute for International Economics. While not a registered lobbyist for the Japanese, Peterson has emerged frequently as a defender of Japanese interests.

"William Eberle, a former U.S. trade representative, and Robert Strauss, a one-time special trade envoy with the title of trade representative and one of Washington's most effective lobbyists, represent or advise foreign interests, including those of Japan. So does Roderick Hills, former chairman of the Securities and Exchange Commission. Former Defense Secretary Clark Clifford represents foreign interests, and so does William Colby, the former director of the Central Intelligence Agency.

"Former Democratic Congressmen Michael Barnes of Maryland and Jim Jones of Oklahoma were among the army of lobbyists mobilized by Toshiba to weaken congressional sanctions against the company in 1988.

"When Toyota wanted federal approval for a questionable special trade zone in Kentucky so it could receive imported auto parts from Japan duty-free for uses at its new auto plant there, it enlisted the aid of Republican Party Chairman Frank J. Fahrenkopf, Jr., to set up a meeting between Toyota representatives and Commerce Secretary Malcolm Baldrige. The trade zone was approved.

"When Eric Garfinkel was deputy assistant director of commerce and trade in the Reagan administration, he was a key player in the debate over whether to offer the U.S. machine tool industry the option of imposing sanctions on the Japanese in order to protect the American industry. When he left the White House in 1983, he went to work at a law firm where he represented the Tool Builders Association of Japan.

"Walter Lenahan, a deputy assistant secretary in the Commerce Department, was the leader of the U.S. negotiating team for discussion of the extension of an international agreement governing trade in textiles and apparel, two U.S. industries that had suffered enormously as a result of imports.

"Lenahan was given proprietary information by U.S. companies and various American trade associations representing the two industries. He knew what the top priorities of the companies would be, and he was well aware of the concessions the U.S. negotiators were prepared to make in order to get the agreement renewed or at least extended.

"Just days before the team's departure for the talks in Geneva, Lenahan quit the Commerce Department and went to work for the International Business and Economic Research Corporation, a Washington lobbying firm that represented Japan, Hong Kong, South Korea, and the Philippines, the very nations on the opposite side of the table from the United States. He even attended the meeting in Geneva, saying that he was not attempting to influence U.S. policy, but merely advising Hong Kong.

"When a bill was introduced in the Senate in 1985 that threatened to increase U.S. tariffs on Japanese telecommunications equipment, Stanton Anderson, a Washington lawyer and one-time Nixon White House aide with strong ties to the Reagan administration, helped organize the opposition.

"One Washington reporter who covers trade issues said of Anderson: 'He's a very effective lobbyist. Stan Anderson knows within hours what happened at any high-level White House meeting dealing with Japan.'

"At the time of the threatened tariffs, Anderson's law firm represented the Communications Industries Association of Japan, and he was chairman of Global USA, a lobbying firm with a client list that included two Japanese high-technology companies, Kyocera and Fanuc, and a Japanese airline, All Nippon Airways.

"The Senate was unable to muster support for a bill with any teeth. Later Robert Angel, former chief of the Japan Economic Institute, a Washington research organization funded by the Japanese government, told Eduardo Lachica of the *Wall Street Journal*: "Japan hasn't lost a battle since Nixon acted against Japanese textiles. It can buy its way out of any trouble.' Angel quit the institute in a dispute over what he viewed as undue influence over its affairs by Japan's Ministry of Foreign Affairs.

"A study by the General Accounting Office, the chief investigative arm of Congress, raised the image that virtually any sort of expertise acquired while working for the U.S. government is for sale in "Washington to foreign interests.

"The GAO identified seventy-six federal officials who went to work on behalf of foreign interests in Washington after leaving office between 1980 and 1985. Among them were eighteen senior White House officials, twenty-two other high-ranking officials from the executive branch, six senators, nine members of the House, four military officers with the rank of general, and seventeen senior congressional staffers. (Douglas Frantz and Catherine Collins, *Selling Out*, pp. 57-61.)

Japanese Practice Protectionism in Trade Matters

"Reciprocity is the concept that best exemplifies the unfairness behind Japan's invasion of the United States. It also is a concept as important as quality and hard

work in understanding why Japan has emerged as a world economic power since the end of World War II.

"Reciprocity is the notion that the trade door should swing open both ways. Philip Trezise of the Brookings Institution, a Washington think tank, said it simply: 'Reciprocity need only mean balanced opportunities to trade. That indeed is a sensible objective.'

"Along with being a sensible objective, reciprocity is the standard by which many believe trade relations should be measured. When that measure is applied to the Japanese, the world's emerging industrial power fares poorly. A congressional study in 1987 found Japan 'among the nations with the most stringent investment restrictions.'

"A confidential report prepared by the U.S. trade representative's office was even blunter. The language is not shielded in the usual diplomatic tones because nowhere in the forty-page report is its source indicated. The author, a high-ranking official within the trade office, was therefore free to speak his mind in what was expected to be an internal assessment of U.S. access to the Japanese markets.

"Although the report was prepared in mid-1985, it has not previously been quoted from, and more importantly, its arguments are as true today as when they were composed.

"'The issue of access to the Japanese market is one of deep concern to the United States,' said the report. 'Layers of regulatory control, together with the ability of many industrial associations to exercise considerable control over activity in their sectors, makes the Japanese market one of the most difficult to penetrate. This assessment of the Japanese market is held not only by American businessmen, but by businessmen from around the world. It is reflected in the low levels of manufactured imports in the Japanese market.'

"What this means is that the Japanese can sell their autos and stereos and computers in the United States. And U.S. companies are restricted or prohibited from selling the same products, or the ones at which they excel, in Japan.

"What this means, too, is that Japanese corporations can build new plants and acquire anything from office buildings to factories without U.S. governmental restrictions in the United States. Yet whole industries are off limits to U.S. buyers in Japan.

"The degree to which Japan's markets are closed is demonstrated by the trend there to limit imports while its exports have soared. Clearly there are other international economic factors at work. Among them are the monstrous deficit spending of the American government, which has required huge sums of foreign capital, and the unbridled appetite of American consumers for imports.

"But the impact of Japan's protectionism cannot be ignored in assessing the trade numbers.

"Between 1980 and 1985, Japan's exports rose 35 percent and its imports fell 8 percent. The decline in imports came during a period when the Japanese standard of living was improving dramatically. And it came during a period when developments in the United States were going to the opposite direction. U.S. exports declined 3 percent while imports rose 41 percent.

"The numbers on the U.S.-Japan trade deficit show how Japan has benefited from open American markets and closed domestic ones.

"Between 1982 and 1987, the U.S. trade deficit with Japan increased more than 200 percent, rising from \$17 billion to \$56.9 billion. U.S. imports of Japanese goods more than doubled, going from \$37.7 billion to \$84.6 billion. Exports of U.S. goods to Japan, however, rose only about one-third, from \$20.7 billion to \$27.7 billion.

"Many factors played a role in the trade imbalance, but one of them again was Japanese protectionism. American exporters face enormous difficulties in cracking Japan's closed markets, as shown by the years of effort to ship beef there without smothering restrictions.

"Japan's Livestock Import Promotion Council is an example of a misnomer if ever there was one.

"The semigovernmental body was created not to promote imports of beef to Japan, but to restrict them. As one example of the industry associations mentioned in the confidential U.S. trade representative's report, the council controls all distribution of beef and sets prices, often three times higher than the actual import price. The tactic depresses demand among Japanese consumers and allows the economically weak but politically powerful Japanese agriculture sector to survive.

"In addition, the council restricts U.S. beef imports to a specific quota. The quota specifies not only how much can come in, but what cuts – lots of cheap chuck and ground meat, very little sirloin. For instance, in 1987 the quota for all U.S. beef imports was 214,000 tons. Of that amount, only 52 tons could be sirloin.

"The only meat that American firms can export to Japan in unlimited quantities is offal, the collection of scrap meats that the Japanese then turn into a product called 'formed steak.' As a result, the imported U.S. beef most widely available to Japanese consumers is of the poorest quality....

"On a more substantive side, the Japanese have been far less willing to make compromises that would open their critical industries to competition from

Americans or other nations. In such fields as steel, autos, computers, and semiconductors, the Japanese government's protectionism

(Douglas Frantz and Catherine Collins, *Selling Out*, pp. 85-87.)

The Japanese Strategy for Gaining Control of the World Economy

"At a meeting of the U.S.-Japan Businessman's Conference in Honolulu in February 1986, the chairman of Ford Motor Company spoke the lament that characterized American industry in the 1980s.

"I wish someone would tell me that manufacturing is not un-American,' said Ford boss Donald Petersen.

"Yukuo Takenaka, a Japanese-American who advises many of Tokyo's leading industrialists in addition to hundreds of the Japanese companies setting up shop in the United States, used nearly the same language in early 1988 as he sat in his office in downtown Los Angeles.

"Americans seem to have given up on manufacturing,' said Takenaka, head of the Japan section at Peat Marwick Main, the world's largest accounting firm. 'Americans somehow think that manufacturing is second-class work. No one in this country is concerned about manufacturing anymore. It is no longer a desired job to work in a factory. It has become almost un-American.'

"Where does the blame lie? A substantial measure of it belongs to the decade-long orgy of merger mania that swept the nation in the 1980s. It is no coincidence that the economic decline of the United States occurred at precisely the same time that the investment bankers and corporate raiders began their destructive transformation of corporate America.

"Instead of increasing spending to modernize plants and boost budgets for research and development to retain America's competitive position, the nation's manufacturers allowed Wall Street to push them into a self-destructive game of corporate checkers that drained capital and energy and creativity.

"A side effect: until the early 1970s, only about 12 percent of the Harvard Business School graduating class each year went to Wall Street; by the 1980s, fully one-third of each class was going there. Wall Street became the magnet for the nation's brightest young business school graduates, the people who once would have gone to work at General Motors or Lockheed. The money was being made in moving paper, not in creating products. If manufacturing did not look un-American to the nation's brightest young MBAs, it certainly looked unappetizing.

"Another consequence of the merger mania is that U.S. managers have been forced to focus on short-term profits at the expense of long-term development

plans. Operations that do not drive the bottom line, such as the development of new products, are jettisoned. If it is cheaper to buy sophisticated components abroad and simply assemble them in U.S. plants, what does it matter that a company sacrifices technical innovation and devalues inventive and engineering skills?

"By contrast, the biggest companies in Japan are often owned partly by their lenders, so they are able to borrow at lower interest rates and focus more on long-term outlooks than American business does. Richard Drobnick, director of the International Business Education and Research program at the University of Southern California in Los Angeles, said, 'In Japan, you can invest more, ask for lower prices, develop market share, because you don't need to pay it back so quickly. That's no fault of any American company. That's the fault of American economic policy.'

"But the warning signs of a nation at risk were visible well before merger mania was under way.

"The nation seemed to take the wrong fork in the road in the 1970s. The Vietnam War damaged the national psyche, the oil embargo threatened U.S. economic independence for the first time in more than a century, and unemployment and inflation both rose throughout most of the decade.

"The manufacturing sector, weakened by malaise, came under attack from foreign producers. Market after market fell to cheap goods produced abroad – cars from Japan, shoes from Italy, apparel from Hong Kong and Taiwan.

"American industry was disheartened, and its leaders stopped minding the shop. They stopped paying attention to quality and no longer were willing to invest the energy and capital that had paved the way for the post-World War I ascension of American capitalism.

"While America went into decline and began living off foreign capital and developing an addiction to imported goods, Japan was reaping the fruits of an industrial development that had begun in the ashes of World War II.

"Japan's principal aim in World War II had been to gain control of land that would provide the natural resources vital to its economic prosperity. After its defeat, Japan's leaders recognized that they would have to find another way to build the economic sovereignty of their nation. The alternative was evident: the nation's economic power would have to be built on a foundation of manufacturing and exports. The resources would have to be bought, rather than seized, and the value added through a new industrial base.

"In order to develop that base, Japan would keep its markets closed to protect its fledgling industries, and its people would sacrifice through hard work and by

paying more for domestically produced goods than they would have paid for American imports. The driving force was the strategic development of a national industrial base, not the desires of consumers for inexpensive goods – a sharp contrast to the laissez-faire policies of the United States.

"Here another factor surfaces that played a role in what has become known as 'the Japanese miracle.' That factor is the homogeneous nature of the Japanese society. The historic sense of community and national purpose, which had been reinforced by the stinging defeat in the war, is not only unrivaled in a nation as diverse and young as the United States. It is barely understood.

"Perhaps no two cultures are as different as those of the United States and Japan. Americans pride themselves on individual initiative and outstanding personal accomplishments. The Japanese operate within a framework of team play in which the individual's needs are always secondary to the goal of the whole.

"Japanese society extols hard work, loyalty to the company, and a desire to resolve conflicts through cooperation, consensus, and a strong dose of deference to authority. The necessity of building an economy based on manufactured goods became part of the textbooks from elementary schools on up. It was preached by government officials and business leaders and implemented with the help of the nation's most powerful government agency, the Ministry of International Trade and Industry, or MITI....

"Indeed, few American business leaders have been able to understand the concerted nature of the competition they face from Japan. One reason is that the type of coordinated effort embodied in the 1986 meeting of Japanese industrialists is completely antithetical to the U.S. mind-set. The very idea that the chief executives of IBM, General Motors, and Citicorp would sit down for a similar session is unthinkable.

"A few Americans recognized the significance of a new Japanese investment pattern that emerged in the middle to late 1980s as Japan switched from passive purchases of stocks and bonds to direct purchases of U.S. companies and the creation of new plants on American soil.

"The Japanese found that their skills could be exported to the United States, where they could manufacture goods without fear of protectionist tariffs or the volatility of international currencies. (Douglas Frantz and Catherine Collins, *Selling Out*, pp. 103-106, 114.)

The U.S. Economy Is Under Siege

"The U.S. economy is under siege, and the battlefronts are many – from the New York Stock Exchange to Hawaii's hotel industry. To the victor will go rich spoils – possibly entire sections of the U.S. economy, such as the auto industry. As

in a military war and its resulting loss of political sovereignty, economic sovereignty will be tough to rebuild.

"When viewed in the terminology of war, the competition can be divided clearly into various fronts; corporation's assume the role of battalions; and the victories can be counted for what they really are – steps toward conquest.

"One of the single most important fronts today is the auto industry, where the siege by Japanese companies has stripped away jobs and profits from U.S. automakers and threatens to overrun what for years has been the United States' premier manufacturing field.

"In recent years, the Japanese have infiltrated U.S. lines, avoiding quotas and tariffs and gaining leverage to fight protective measures by moving an ever-increasing portion of their manufacturing process to the United States.

"Today, 3,000 years after the residents of Troy pulled a wooden horse inside their walled city and opened the door for their defeat, the Trojan horse has four wheels, a shiny paint job, and power brakes.

"Japan's automakers are the ultimate Trojan horse, and American cities and states are eagerly wheeling them inside. The states and towns swing open the gates and offer tax holidays, public works improvements, worker retraining centers, and special schools for the children of Japanese executives.

"Like the residents of ancient Troy after the long siege, state development agencies and local chambers of commerce hungry for revenue and jobs are blinded to the long-term implications of replacing the American auto industry with a Japanese one.

"'In the 1980s Japanese automakers have invested more than \$5 billion in U.S.-based assembly facilities,' said a March 1988 report by the General Accounting Office, the chief investigative arm of Congress. 'Seven Japanese-affiliated auto manufacturers and more than 100 Japanese-affiliated auto parts suppliers are operating or constructing facilities in the United States.'

"The report went on to reflect a deepening worry: 'The growth of foreign direct investment has led to concerns over the future of the U.S. auto manufacturing and parts supplier industries. Critics suggest that it is causing job losses, reducing the market share for U.S. companies, and contributions to industry overcapacity.'

"More than one in five new cars purchased by Americans is Japanese-made, and some industry analysts predict the total will reach almost half by early in the next decade. Thousands of those Japanese cars actually will be manufactured at plants in the United States, but there is little solace in that phenomenon for the U.S. auto

industry or the thousands of men and women who work in the industry and its related supply businesses.

"The Japanese-affiliated automakers in the United States, called transplants, use fewer workers and more foreign content than U.S. automakers, and the result that many expect is a dramatic decrease in employment in the auto industry in the United States.

"As America's love affair with Toyotas and Hondas and Nissans blossomed between 1978 and the end of 1986, more than 400,000 jobs were eliminated in the U.S. auto industry and related businesses. A 1987 study by the United Auto Workers predicted that another 540,000 of the 1.8 million jobs remaining in the auto and parts industries will disappear by 1990 because of the effect of the Japanese transplant automakers and parts suppliers.

"David Cole, director of the Office for the Study of Automotive Transportation at the University of Michigan in Ann Arbor, put it another way during an interview: 'Japan is creating an economic success where Pearl Harbor failed.'

"Cole recognizes the advantages in the Japanese plants on U.S. soil – after all, the Trojan horse came wrapped as a prize. But Cole also is gravely concerned over the long-term implications.

"Clearly, if Japanese vehicles are going to be sold in the United States, it is better on a net basis if they are assembled here,' he said. 'But any new plant will be more efficient than an old plant, so it isn't a zero-sum game in terms of employment. The customers are the big winners. They are getting better cars at better values. But the dislocations from a social standpoint are enormous. Competition is great, but in terms of the kind of things happening today in the auto industry, competition can also get a little out of control.

"There is almost a total absence of strategic understanding in our society about what this might lead to. Long-term thinking among our politicians is the next election. The Japanese, however, are long-term thinkers. They have specific goals in mind. They look at all the implications of a decision. We don't. We live for today, sometimes tomorrow, but never next year. The long-range strategic implications of major foreign investment and competition for control of assets in the United States have got to be dealt with.

"In a sense, the Japanese are feeding Congress's insatiable desire to spend money. It's almost like Japanese Kobi beef. They take their precious cows, feed them beer, massage them, force feed them. I'm sure the cow is as happy as possible. He probably feels great as he walks up the steps of the slaughterhouse. Are we doing the same thing?'

"To carry Cole's analogy a bit further, one could say that state governments across the United States have been building the steps that lead to the slaughterhouse. In what *Newsweek* called the 'War Between the States,' almost no concession is too great as states fight with each other to land the latest Japanese manufacturing plant. (Douglas Frantz and Catherine Collins, *Selling Out*, pp. 125-128.)

The Japanese Intelligence Service Practices Commercial Espionage

"Throughout history, spies have obtained vital nonmilitary secrets, but such secrets are normally picked up in the course of spying for military purposes. After World War II, however, a new breed of spies developed. They were experts in industrial espionage, primarily agents of the Soviet Union and its satellites whose mission was to steal U.S. technological secrets. The Rosenbergs and the secrets of the atom bomb are perhaps the best-known example.

"For the Eastern bloc nations, however, this commercial spying existed as part of a thorough military espionage apparatus. For the Japanese in the postwar world, commercial spying became the primary focus of the nation's espionage network.

"In a book about the Japanese intelligence service entitled *Kempe Tai*, British author Richard Deacon called the process 'espionage for prosperity.' It was, he said, the only intelligence service with the prime aim of making its nation more prosperous and improving the standard of living for its people.

"After the war, Japan was limited to spending only enough on its military to defend itself. Orthodox intelligence gathering for military purposes was also restricted substantially. Rather than dismantle the espionage apparatus, the Japanese government redirected its intelligence gathering to economic issues and broadened the roster of agents to include almost any Japanese businessman who went abroad. This activity was just as vital and patriotic as gathering military information in a time of war, for the Japanese viewed their economic survival as another type of war effort.

"Spying for prosperity dovetailed well with Japan's historic trait of seeking useful information abroad and employing it at home. So the process played a natural role in Japan's economic rebuilding. It also had the added advantage of supplying another strong link between industry and government in what became essentially the government-planned capitalism of Japan.

"The information gathered by Japanese businessmen around the world and fed into the government-industry alliance enabled the nation to foresee and capitalize on such events as the coming market for consumer electronic goods and the boom in worldwide camera sales. These were the types of shortcuts that played a significant role in helping the Japanese to catch up with their U.S. economic rivals

in the 1960s and surpass them in many fields in the 1970s. (Douglas Frantz and Catherine Collins, *Selling Out*, pp. 195-196.)

Japanese Strategy on Wall Street

"The operative philosophy at work in the financial services industry is actually very simple: If you can't beat them but them. And once they buy them, the Japanese have shown over the past two decades that they will study, study, study and learn to do it themselves so that they can compete effectively and efficiently in every sector of the financial services business in the United States and around the world.

"Competition itself is no danger to the U.S. financial houses or the nation's markets. But if the Japanese cross the threshold from competition to concentration, if they begin to dominate financial markets in the fashion that they dominate, say, the consumer electronics arena, the threat to American independence becomes real and dangerous.

"Ownership of financial institutions, far more than ownership of real estate and factories, implies power, and that power has the potential to jeopardize the sovereignty of the United States." (Douglas Frantz and Catherine Collins, *Selling Out*, pp. 226-227.)

Japanese Ownership of Banks in the U.S.

"Los Angeles is the banking capital of the United States for the Japanese. There are more big branches of Japanese banks in New York, a sizeable number in Chicago. But those offices deal almost exclusively with large corporate clients.

"It is in Los Angeles and California that the Japanese banks have decided to get down in the pits and compete head-to-head with American banks for the hearts, minds, and bank accounts of American consumers.

"There are several reasons why the Japanese have chosen California. First is its rich, diverse economy. If California were a sovereign nation, it would have the sixth largest gross national product in the world, right behind France and ahead of the United Kingdom, Italy, and Canada. The state boasts some of America's richest farmland and most productive manufacturing companies from the high-tech corridor in Silicon Valley to the giant aerospace and defense firms surrounding Los Angeles.

"Next on the list are proximity and familiarity. More than any other state, California is a natural port of entry for Japanese firms coming to the United States mainland to do business. It is the leading trading partner with the Japanese among U.S. states, a gateway to the Pacific Rim for the United States, and an open door to the United States for Japan and the rising economies of Asia. Indeed, by 1988, the

Japan Business Association of Southern California estimated that 1,000 subsidiaries of Japanese companies were doing business in California, employing about 100,000 people." (Douglas Frantz and Catherine Collins, *Selling Out*, pp. 230.)

The Publishing Industry is Being Concentrated Throughout the World

"Those who say no foreigner can dominate such a uniquely American industry need look no farther than the publishing industry to see how it can be done, if one has the money.

"Australian-born Rupert Murdoch has used sheer economic power and an aggressive acquisition strategy to become a major force in publishing in the United States and the world. Indeed, when he purchased *TV Guide*, *Seventeen*' magazine, and the *Daily Racing Form* for \$3 billion in mid-1988, Murdoch became the biggest publisher of consumer magazines in the country.

"When the new properties are added to his existing empire, the breadth is staggering. By the end of 1988, Murdoch owned 150 newspapers and magazines, book publishers, television stations, and the satellite channel under development in England. His U.S. holdings included television stations in Boston, Chicago, Dallas, Houston, Los Angeles, New York, and Washington; the fourth major network, Fox Television, as well as Fox Films; newspapers in Boston and San Antonio, Texas; the magazines *Star*, *New Woman*, *New York*, *Automobile*, *Premiere*, *In Fashion*, and *European Travel and Life*; and the book publisher Harper & Row.

"In Britain, he owned the *Times of London*, the *Sunday Times*, the *Sun*, and *Today*. In Australia, he owned six daily newspapers with an average daily circulation of 2 million. In Hong Kong, he owned the *South China Morning Post*.

"'He's acquiring a larger and larger ability to shape and influence public policy,' said David Wagenhauser, staff attorney for the Telecommunications Research Action Center, a consumer watchdog organization, 'One of the best ways to influence public opinion without holding a political office is to control the media – from past experience it does seem that Mr. Murdoch wants to influence public opinion.'

"In much the same fashion that Murdoch has created a media empire, the world's book publishing industry is undergoing a massive consolidation which has left a handful of multinationals controlling half of the world's market. The new giants are companies such as West Germany's Bertelsmann AG, England's Pearson Group (in which Murdoch holds a 14 percent interest), and America's Gulf + Western, Hearst, and MCA.

"In 1988, Bertelsmann paid \$475 million to add Doubleday to an American stable that already included Bantam, and the French media giant Hachette SA

acquired Grolier for \$448 million...." (Douglas Frantz and Catherine Collins, *Selling Out*, pp. 299-300.)

The Future of U.S. Sovereignty Looks Bleak

"None of the many illusions manufactured during the Reagan era is more dangerous than the shortsighted, politically expedient myth that the sharp increase in foreign investment over the last few years reflects the nation's economic revitalization and stability.

"The reality is that this dramatic escalation is the direct result of the economic decline of the United States, from the deficit spending that turned the nation into the world's biggest borrower to the failures of American industry to keep pace with technological advances.

"The reality is that the influx of foreign capital, particularly from Japan, threatens to hobble efforts to create an American industrial renaissance. The reality is that the sellout of the United States raises the distinct possibility that the nation will lack the political and economic sovereignty to solve the long-term economic problems that have lowered its standard of living in the past decade.

"The United States is too vast, too rich in resources, and too vital to the world's political balance to become a colony of Japan or any other foreign power. But that does not insulate the nation from further deterioration in its economic health and global power unless substantial reforms are instituted.

"Indeed, the effects of colonization have been felt already in the stock market crash of 1987, the discrimination experienced in the workplace by growing numbers of American employees of Japanese-owned companies, the widening influence of the Japanese on the political process, and their domination of industry after industry.

"The simple fact is that decisions that should be made in Washington or New York or Los Angeles or Marysville, Ohio, are being made in Tokyo and Osaka. While this does not mean the United States is likely to become a colony, it does convey the warning that the nation is at risk. Unless a way is found to control foreign investment, particularly that of the Japanese because of their staggering concentration of investments, the future of the United States' sovereignty looks bleak...." (Douglas Frantz and Catherine Collins, *Selling Out*, pp. 331-332.)

House of Morgan – the Most Formidable Financial Combine in World History

"...Until 1989, J. P. Morgan and Company solemnly presided over American finance from the 'Corner' of Broad and Wall. Flanked by the New York Stock

Exchange and Federal Hall, the short building at 23 Wall Street, with its unmarked, catercorner entrance, exhibited a patrician aloofness...

"The old pre-1935 House of Morgan was probably the most formidable financial combine in history. Started by an American banker, George Peabody, in London in 1838, it was inherited by the Morgan family and transplanted to New York to famous effect. In the popular mind, the two most familiar Morgans – J. P. Morgan, Sr. (1837-1913), and J. P. Morgan, Jr. (1867-1943) – are rolled into a composite beast, J. P. Morgan, that somehow endured for more than a century....

"Before the Depression, 23 Wall was headquarters of an empire with several foreign outposts. Seated behind rolltop desks on the Broad Street side, the New York partners were allied with three other partnerships – Morgan Grenfell in London, Morgan et Compagnie in Paris, and Drexel and Company, the so-called Philadelphia branch of J. P. Morgan. Of these, Morgan Grenfell was easily the most powerful, forming the central London-New York axis of the Morgan empire. It was a transatlantic post office for British and American state secrets. Before the New Deal, the term 'House of Morgan' applied either to J. P. Morgan and Company in New York or, more broadly, to the whole shadowy web of partnerships.

"The old House of Morgan...catered to many prominent families, including the Astors, Guggenheims, Du Ponts, and Vanderbilts. It shunned dealings with lesser mortals, thus breeding popular suspicion. Since it financed many industrial giants, including U. S. Steel, General Electric, General Motors, Du Pont, and American Telephone and Telegraph, it entered into their councils and aroused fear of undue banker power. The early House of Morgan was something of a cross between a central bank and a private bank. It stopped panics, saved the gold standard, rescued New York City three times, and arbitrated financial disputes. If its concerns transcended an exclusive desire for profit, it also had a peculiar knack for making good works pay.

"What gave the House of Morgan its tantalizing mystery was its government links. Much like the old Rothschilds and Barings, it seemed insinuated into the power structure of many countries, especially the United States, England, and France, and to a lesser degree, Italy, Belgium, and Japan. As an instrument of U. S. power abroad, its actions were often endowed with broad significance in terms of foreign policy. At a time when a parochial America looked inward, the bank's ties abroad, especially those with the British Crown, gave it an ambiguous character and raised questions about its national loyalties. The old Morgan partners were financial ambassadors whose daily business was often closely intertwined with affairs of state. Even today, J. P. Morgan and Company is probably closer to the world's central banks than any other bank.... " (Ron Chernow, *The House of Morgan: An American Banking Dynasty and the Rise of Modern Finance*, New York, Simon and Schuster, 1990, pp. xi-xii.)

International Bankers Gain Control of Industry in the World

"As the Baronial Age [1838-1913] progressed, the line between finance and commerce would blur until much of industry passed under the control of the bankers...." (Ron Chernow, *The House of Morgan*, p. 24.)

International Bankers Dictate Terms to Sovereign States

"No less than to industry, bankers dictated terms to sovereign states, and countries, like companies, had their 'traditional bankers.' Benjamin Disraeli wrote of 'the mighty loan-mongers on whose fiat the fate of kings and empires sometimes depended.' Byron's witty couplet claimed their 'every loan...seats a Nation or upsets a Throne.' The bankers acquired such power because many governments in wartime lacked the sophisticated tax machinery to sustain the fighting. Merchant banks functioned as their ersatz treasury departments or central banks before economic management was established as a government responsibility. The London banks didn't lend their own funds but would organize large-scale bond issues. Through conspiring closely with governments, they acquired a quasi-official aura. Joseph Wechsberg has referred to merchant banks operating 'in the twilight zone between politics and economics.' This was turf the Morgans would later claim as their own. It was also very lucrative turf, for bankers to sovereign states might also handle their foreign-exchange transactions and pay out dividends on their bonds." (Ron Chernow, *The House of Morgan*, pp. 24-25.)

J. P. Morgan Opposed Free Market Economics

"It seems anomalous that America's most famous financier was a sworn foe of free markets...." (Ron Chernow, *The House of Morgan*, p. 54.)

J. P. Morgan Favored Government Planning

"As we shall see, the House of Morgan always favored government planning over private compilation, but private planning over either...." (Ron Chernow, *The House of Morgan*, p. 56.)

A Tremendous Concentration of Power in Wall Street

"If there was nothing devious about the voting trusts, they created a frightening concentration of Wall Street power. Before the morganization period, more than two-thirds of American railroads had offices outside New York; afterward, most were headquartered there. By 1900, the nation's railroads were consolidated into six huge systems controlled by Wall Street bankers, principally J. P. Morgan and Company and Kuhn, Loeb. In this perpetual-motion machine, Pierpont not only reorganized roads but locked up their future financing. By acting as their trustee or holding a large block of their stock, he ensured bondage to 23 Wall. The banker was strong because the railroads were weak, and however much Pierpont deplored

railroad instability, he thrived on such chaos." (Ron Chernow, *The House of Morgan*, pp. 68-69.)

J. P. Morgan Amenable to Private Central Banks

"The one direct consequence of the 1907 panic was a universal clamor for banking reform. In 1908, Congress passed the Aldrich-Vreeland Currency Act, which created the National Monetary Commission to study changes in the banking system. The commission was chaired by Senator Aldrich of Rhode Island, and the House of Morgan quickly moved to exert influence on it. Perkins cabled Pierpont in London that he and George F. Baker, the walrus-mustached head of the First National Bank, had stayed away from Washington, lest the new legislation be seen as a Wall Street plot. At the same time, Perkins sent a coded cable saying that Harry Davison, Baker's young protege, would be Aldrich's adviser: 'It is understood that Davison is to represent our views and will be particularly close to Senator Aldrich.' Davison had been Pierpont's cool lieutenant during the 1907 panic and had greatly impressed him. When the Aldrich commission was about to depart for a tour of Europe's central banks, Davison went ahead to confer with Pierpont, who wanted a private central bank on the Bank of England model. Davison would be the only banker to accompany the senators and congressmen on their mission.

"A central bank was by no means supported by all Democrats. William Jennings Bryan and the Populists feared that a central bank would be dominated by the same hard-money men who ran Wall Street. They saw it as an institution that would slay the silverites. In many ways, the concept was associated more with conservative, hard-money men. Pierpont was amenable to central banks so long as they were private and had boards composed of bankers. As Pierpont's man on the commission, Davison reflected his mentor's uncompromising preference for banker rather than politician control of a central bank. He also expected such a bank to introduce a 'level playing field' and end the competitive advantage of the trusts.

"In November 1910, in what was billed to the press as a 'duck-shooting holiday,' Davison (now a Morgan partner) and other Wall Street bankers met secretly at the Jekyll Island Club, a palm-shaded seaside compound of turreted buildings off the Georgia coast and a favorite Morgan hideaway. Known as the resort of the one hundred millionaires, Jekyll Island claimed among its organizers Pierpont's chum George F. Baker. Pierpont kept an apartment in its San Souci building.... Here Wall Street bankers worked out their plan for a central bank under private aegis, a system of regional reserve banks topped by a governing board of commercial bankers. Davison, an architect of the meeting, not only got a suspicious stationmaster in Brunswick, Georgia, to keep quiet about his suspicions, but often led the discussion. As Paul M. Warburg of Kuhn, Loeb, one of the key theoreticians at the meeting, later said, 'Davison had an uncanny gift in sensing the

proper moment for changing the topic, for giving the discussion a timely new turn, thus avoiding a clash or deadlock.'

"When Senator Aldrich presented his bill for a central bank to Congress in 1910, the Democrats blocked it. In 1913, Congressman Carter Glass, a Virginia Democrat, used it as the basis for the Federal Reserve Act, although making extensive modifications. President Wilson successfully demanded that the system of twelve private regional reserve banks be placed under a central political authority, a Washington board that would include the Treasury secretary and presidential appointees. Progressives hoped the Federal Reserve would reduce the House of Morgan's unique power. As we shall see, the truth was far more complex, for the bank would skillfully harness the Fed and use it to amplify its powers. In an ironic outcome unforeseen by reformers, it would become the private bank of choice for central banks throughout the world, giving it an incalculable new advantage." (Ron Chernow, *The House of Morgan*, pp. 129-130.)

International Bankers Use U.S. Military Power Abroad to Ensure Loan Repayments

"Henceforth, much of the Morgan saga revolves around incestuous dealings between the Morgan banks in New York and London and their respective governments, intrigue that would drape them in mysterious new raiment. The Baronial Age [1838-1913] was one of unbridled laissez-faire, marked by often unqualified hostility on the part of bankers toward government. But in the dawning Diplomatic Age [1913-1940] there would be an explicit fusion of financial and government power. In time, it would become hard to disentangle the House of Morgan from various aspects of Anglo-American policy. Yet there would also be spectacular instances in which Morgan policy would take on a clandestine life of its own, diverging from official dictates.

"The new alliance was mutually advantageous. Washington wanted to harness the new financial power to coerce foreign governments into opening their markets to American goods or adopting pro-American policies. The banks, in turn, needed levers to force debt repayment and welcomed the government's police powers in distant places. The threat of military intervention was an excellent means by which to speed loan repayment...." (Ron Chernow, *The House of Morgan*, p. 131.)

The House of Morgan Forms Alliance with New York Federal Reserve Bank

"The Pujo hearings had one immediate consequence that seemed to threaten Morgan power. In December 1913, President Wilson signed the Federal Reserve Act, providing the government with a central bank and freeing it of reliance on the House of Morgan in emergencies; the new Federal Reserve System was a hybrid institution, with private regional reserve banks and a public Federal Reserve Board in Washington. Yet the House of Morgan moved so artfully to form an alliance with the Federal Reserve Bank of New York that for the next twenty years it would

actually gain power from the new financial system. The bankers had not yet been tamed." (Ron Chernow, *The House of Morgan*, p. 156.)

J. P. Morgan and Company Develop the Plans for the Federal Reserve System

"One final episode in this last flowering of Progressive reform should be noted. On December 23, 1913, President Wilson signed the Federal Reserve Act. Wilson, of course, had insisted on a Federal Reserve Board in Washington under political, not banker, control. 'There are only two choices,' he said. 'Either to give the central control to the bankers or to give it to the government.' Earlier in the year, Jack had gone down to Washington with the Morgan plan for a central bank under private control. J. P. Morgan and Company had not only formulated a scheme but had it beautifully printed up. When Wilson's close adviser, Colonel House, saw what Jack had brought, he hastily told him to present it to Wilson typed on ordinary paper, lest Bryan and the Progressives think the House of Morgan was dropping off a prearranged plan.

"The Federal Reserve System that went into operation in November 1914 was, in many ways, a Morgan godsend. It took some political heat off the bank. As Fed historian William Greider has written, 'As an economic institution, the Fed inherited the noblesse-oblige role that the House of Morgan could no longer perform – and also some of the resentment.' The diminution of Morgan power was less than met the eye. In many ways, the Washington board, which oversaw the twelve regional banks, was toothless. The New York Fed, in contrast, emerged as the focal point for dealing with European central banks and the foreign exchange markets. So, real financial power remained where it had always resided – on Wall Street.

"The critical position in the new system was the governor of the New York Federal Reserve Bank. Its first occupant, Benjamin Strong, had Morgan written all over his resume. He was a protégé of Harry Davison, who had made him a secretary of Bankers Trust and brought him in as Pierpont's personal auditor during the 1907 panic. There was an emotional bond between the two men. When Strong's wife committed suicide after childbirth and a daughter died a year later, the Davisons took the three surviving Strong children into their home. Strong then married Katherine Converse, daughter of Bankers Trust's president, and had become president himself by 1914.

"That year, when the New York Fed job became available, Strong balked at taking it. Not only had he supported the bankers' Aldrich plan, but he had even campaigned against the Federal Reserve Act. Only after spending a long country weekend with Harry Davison and Paul Warburg did he take the job. Strong wanted to endow the New York Fed with the dignity and prestige of the Bank of England. The House of Morgan directed him to Teddy Grenfell for tutorials on how that bank operated. Through Strong's influence, the Federal Reserve System would

prove far more of a boon than a threat to Morgan. The New York Fed and the bank would share a sense of purpose such that the House of Morgan would be known on Wall Street as the Fed bank. So, contrary to expectations, frustrated reformers only watched Morgan power grow after 1913." (Ron Chernow, *The House of Morgan*, pp. 181-182.)

House of Morgan Supports Internationalists

"During the Republican-dominated 1920s, bankers probably attained their peak of influence in American history. It would be the heyday of Morgan power....

"...By instinct and self-interest, the Morgan bank was liberal and internationalist on global financial issues. It advocated U.S. leadership, close consultation with the Allies, and vigorous lending abroad. On foreign policy issues it felt some kinship with Wilsonian Democrats. With England handicapped in its resumption of foreign lending, J. P. Morgan and Company wanted the United States to inherit British leadership and initiate the rebuilding of Europe. The Harding brand of Republicanism, by contrast, was provincial, protectionist, and wearily contemptuous of European conflicts. These Republicans regarded foreign loans as ways to manipulate foreigners or as wasted welfare payments better spent inside America. Throughout Morgan history, the bank would be strongly drawn to internationalist leaders, not necessarily Republican." (Ron Chernow, *The House of Morgan*, pp. 225-226.)

Private Bankers Now Preside Over the Global Financial System

"A new breed of money mandarins has thrived in a 1980s atmosphere of deregulated high-stakes global finance. Aided by a revolution in information and communications technology, private bankers now preside over an integrated network of global finance, leapfrogging national boundaries in the same way as the communications satellite which recognizes no borders. The corporation has become dominated by financial wizards who know little about production but everything about leveraged buyouts and takeover strategies. In government, policy makers, trained to deal with the real problems ... have been swept aside and replaced by officials from the Federal Reserve and Treasury departments whose expertise is money and finance. Public money mandarins, therefore, comport with their private counterparts in banks and corporations to govern the symbols of a world economy...." (Howard M. Wachtel, *The Money Mandarins: the Making of a Supranational Economic Order*, New York: M. E. Sharpe, Inc., 1990, p. 3.)

Americans Are Entangled in a Web of Global Financial Arrangements

"American international banks have entangled each one of us in global financial affairs, whether or not we choose to be. About fifteen hundred banks throughout the United States are part of Third World loan syndicates put together by the major international banks. Part of each deposit we make is at risk in these Third World

loans, as it would be with any other. But it is the enormous size and concentration that makes the difference. About \$550 billion were owed in 1984 to private U.S. banks by Third World and East European countries whose ability to repay these loans is periodically in doubt." (Wachtel, *The Money Mandarins*, p. 10.)

International Bankers Have Reduced the Sovereignty of the United States

"The United States ... has simultaneously become much more dependent on the world economy and much less able to dictate the course of international economic events.... Private entities, often operating outside the direct control of any government, have reduced sovereign power in general and that of the United States in particular." (C. Fred Bergsten, quoted in Wachtel, *The Money Mandarins*, p. 11.)

A System of World Economic Governance By Supranational Banks and Corporations

"Policymakers see the world economy divided into two parts. The first is private market-regulated competition among corporations and banks based in different countries. The second involved public relationships among nation-states governed by international public rules. The supranational economy, however, increasingly dominates the commanding heights of the world economy, and it is distinct from this traditional way of thinking about the international economy. In the ungoverned supranational economy, private commercial, financial, and communications enterprises circumvent both domestic public regulation and international public rules by operating outside the regulatory reach of governments. The supranationals pursue their own global strategic interests, which can be at odds with the national interests of their countries of origin. The end product is a system of world economic governance with parameters defined by the unregulated market and rules administered by supranational banks and corporations." (Wachtel, *The Money Mandarins*, p. 14.)

Global Companies Weaken the National Sovereignty of Nations

"The more familiar term used to describe the modern commercial enterprise in the world economy is 'multinational' or 'transnational.' Neither, however, captures the essence of the evolution of private global economic interests in the late 1970s and 1980s. 'Multinational' refers to enterprises operating in many nations; 'transnational' conjures up an image of firms operating across national boundaries. 'Supranational' embraces both of these images but is preferable because it means that private interests can operate beyond the boundaries of national governments, thereby escaping national policies, while at the same time the supranationals use their influence to leverage policy changes in their home governments....

"Supranationalism weakens the nation-state's ability to control its own economic destiny...." (Wachtel, *The Money Mandarins*, pp. 14-15.)

The Emergence of a Supranational Economic System

"Two important changes occurred in the 1970s that expedited the development of a supranational economic order. The first was the decision to deregulate the international monetary system between 1971 and 1973, following the collapse of the postwar Bretton Woods arrangements. The second was a communications and information revolution that transformed banking and money." (Wachtel, *The Money Mandarins*, p 15.)

A World Economic Order Fashioned By Private International Bankers

"A world economic order emerged in the 1970s fashioned by private commercial and banking interests in pursuit of global profits wherever they arose and with whatever consequences for public policy." (Wachtel, *The Money Mandarins*, p. 16.)

International Bankers Devise Ways To Make the Dollar An International Currency

"The defining characteristic of the pre-eminent economy is that its national currency is also the international currency..."

"Between 1946 and 1950, several mechanisms were devised to move dollars from the United States to Europe and Great Britain that reflected both the internationalism of Bretton Woods and the economic pre-eminence of the United States. One institution, created at Bretton Woods for this purpose was the World Bank, whose actual name describes its functions precisely: the International Bank for Reconstruction and Development (IBRD)....

"The role of the IBRD was to raise capital in the United States and Great Britain, primarily, and then use the dollars and pounds to make loans to the war-devastated countries of Europe – roads, electric power, mass transit, and the like. Today, the World Bank makes loans only to the poorer countries in the world. This change in its orientation occurred around 1960; prior to that time, its lending attention was directed toward Europe.

"In 1946, when the World Bank opened its doors in Washington, it was capitalized at \$12 billion – a combination of capital subscriptions from its members and authorization to borrow. Only about \$2 1/4 billion dollars was available, however, in 1946.... The capital endowment was the foundation that enabled the IBRD to raise more money on Wall Street and in the City of London by issuing bonds and selling them to private institutions and individuals. It still does this today. The World Bank stands as a financial intermediary between the borrower and the individuals and institutions that are prepared to place their money in its care. It absorbs the risk associated with the investments of the country-borrowers. The Bank leverages its initial endowment into additional funds raised in

private capital markets by providing a security curtain and the umbrella of confidence that tags along with any institution called The World Bank.

"A large investor or bank was reluctant to lend money directly to European countries after the war in view of the bleak prospects for a rapid return on that investment. In addition, the scale of capital needs – tens of billions of dollars – was beyond the limits of the private capital markets. However, when the World Bank entered the picture to raise capital, it received a good response because of its name, its capital endowment, and the security underwritten by the full faith and credit of governments.

"The export of capital through the World Bank quickly became inadequate to meet the large investment needs in Europe...

"With the start of the Cold War, the means for exporting capital to Europe took a bilateral twist. President Harry S. Truman inaugurated two large capital export programs – Point Four aid for Greece and Turkey and the Marshall Plan that kept the flow of dollars going from America to Europe to support their infrastructure reconstruction. Bilateral lending – no longer justified on internationalist grounds but on Cold War exigencies – was the second way in which dollars were shipped to the rest of the world, enabling the U.S. to fulfill one of the critical international currency functions: providing the rest of the world with dollar liquidity.

"To the World Bank and bilateral loans was added a third mechanism for the movement of dollars overseas: military installations. Facilities were constructed and soldiers paid in dollars. These dollars were exchanged for local currencies and found their way into the central bank coffers where the military bases existed. In this way, dollars moved from the U.S. Treasury through the military to foreign central banks in support of international trade.

"Yet a fourth mechanism for the acquisition of dollars by another country was through investments by American companies. Here is the origin of the modern multinational corporation. Some of this investment by American companies piggybacked on either World Bank or bilateral lending programs. The Marshall Plan administrators, for example, would develop a steel factory project in Belgium and invite participation by American companies. U.S. auto companies, which still have an enormous market in Europe, piggybacked on the Marshall Plan, as did retailers, producers of consumer goods, and virtually any other product one can think of. The normally circumspect U.S. Department of Commerce under President Ronald Reagan concedes this point: 'Relatively large amounts of U.S. government aid to the war-torn European economies (the Marshall Plan), much of it for rebuilding infrastructure, set the stage for large amounts of private U.S. direct investment in Europe. The demand for dollars – an obsessive demand in the first years after the war – opened up vast opportunities for American corporate

penetration that will never be replicated." (Wachtel, *The Money Mandarins*, pp. 36, 40-42, 44-45.)

Eurodollars Are In the Hands of Private International Bankers

"For every dollar in a bank or savings and loan association inside the United States, there is another 50 cents held in banks outside of the country that are beyond the regulatory reach of the banking safeguards we take for granted. This mystery money is called Eurodollars – dollar deposits in both U.S. and foreign banks in other countries...

"Eurodollars represent the first truly supranational form of money. Their growth and evolution are completely in the hands of the private banking system and answer to no government or public authority – whether national or international...

"In 1984, there were over 1 trillion Eurodollars in the world economy which support international trade and form a significant part of world monetary reserves....

"In the past decade, this supranational currency has become a dominant force in international financial markets, in worldwide banking, and in the lending activities of U.S. supranational banks..."

(Wachtel, *The Money Mandarins*, pp, 91, 92, 93.)

Offshore Supranational Banking Sanctuaries Established to Avoid Taxes and Regulations

"Panama is known for its canal and its hats; the Bahamas and Cayman Islands as sandboxes for the rich; Hong Kong and Singapore for their sweatshops. In the 1970s, however, these places also became the locations for the fictitious receipt of billions of petrodollars deposits and for the fictitious booking of billions in Eurodollar loans – 'fictitious' because the money never really roosted there, except for the instant of time when it appeared as a bookkeeping entry on a computer tape in the New York headquarters of the supranational banks. Fearing a freeze on their accounts, the OPEC countries did not want their vast petrodollar surpluses to be vulnerable in any way whatsoever, and they insisted, therefore, on the safest venues for their Eurodollar accounts. The supranational banks wanted to avoid taxes and regulations that would inhibit the earning capacity of their new-found Eurodollar cornucopia. And several Third World countries obliged by providing the safe haven for both the banks and the OPEC depositors.

"In the 1960s, the City of London was the prime location for Eurodollar activity, but it lost out to less-regulated enclaves in the 1970s because the British government started to regulate foreign banks, and in 1975 they imposed a tax on the earnings of foreign banks...

"According to a study by the Organization for Economic Cooperation and Development (OECD), there were 803 branches in the Third World offshore banking centers in 1978-1979, compared with 875 in all of Europe and Great Britain. (Wachtel, *The Money Mandarins*, pp. 110, 11.)

Citibank is a Model Supranational Bank

"The very model of a modern multinational monetary machine is America's second-largest bank, First National City Bank of New York, known better by the name of Citibank and described by Ann Crittenden of the *New York Times* in 1977 as the 'most truly international bank in the world' In 1982, *Business Week* reported that Citibank's thirty thousand 'employees located in 1,490 offices in 94 foreign countries ... generated 67 percent of its deposits and 60 percent, or \$448 million, of its net income from abroad.' 'When Citibank advertises that it never sleeps,' says the economist Robert Heilbroner, 'it speaks more literally than most people know. As evening comes to America, United States bank deposits are, in a sense, released from duty, because no transactions take place for which their tutelary presence is required. Therefore, the out-of-service deposits are loaned overnight by Citibank and all other big banks to financial centers such as Hong Kong or Singapore, where the business day has just begun. There the deposits play their formal role of backing credit transactions until the sun sets in the Orient and the time comes for the funds, like Cinderellas, to return to work in America.'

"The genius behind Citibank's empire is Walter Wriston, who transformed it from a 'New York bank with some foreign branches ...' into 'a worldwide financial institution,' whose 'strategy is not one of making loans,' but 'of making money.' (Wachtel, *The Money Mandarins*, pp. 113-114.)

The Development of International Banking Facilities Inside the United States

"If you can't beat 'em, join 'em. That seemed to be the public policy posture toward the supranational banks in the late 1970s and early 1980s, when a remarkable entity was created, called the International Banking Facility, or IBF for short. In effect, the IBF reproduces inside the United States an almost exact replica of the offshore banking sanctuary.

"Since October 1, 1981, the Federal Reserve Board has permitted states to establish 'enterprise zones' for banks, where the international activities of the banks are exempt from taxation, reserve requirements on their deposits, and government insurance on their deposits. Restricted to so-called 'nonresident' activity, deposits could be received from U.S. or foreign individuals and corporations, but they had to be initiated from outside the country. Loans were treated in the same way; so long as they were received outside the United States, they could be made to American multinational corporations, U.S. citizens, or foreign citizens and corporations. These free trade zones permitted the banks to operate onshore as they had been doing offshore, with one minor technical exception: the onshore IBFs had

to hold deposits for at least two days instead of the overnight waiting period offshore. Aside from this minor inconvenience, supranational banks were able to replicate inside the United States the favorable position they had developed offshore." (Wachtel, *The Money Mandarins*, p. 116.)

Bankers Fear a Run on Their Bank

"A cartoon caption in the *Guardian*, the British daily newspaper, sums it up: 'People Aren't Working, But the Economy It is.'

"Lurking behind this illusory economic miracle was a banking system that was as delicately balanced as a high-wire act. Between 1982 and 1984, there were about 150 bank failures, in contrast to the 6 to 10 per year during the 1960s and the 1970s. Only during the depths of the Great Depression was there a similar three-year period of bank insolvencies in this century (between 1936 and 1938 there were a little over two hundred bank failures). In addition to the outright bank failures William M. Isaac, chairman of the Federal Deposit Insurance Corporation, disclosed that there were 797 banks in 1984 'listed by . . . three federal banking agencies as problem institutions requiring special supervision' – more than twice the peak reached after the 1973-75 recession...." And this does not take into account what the economist Michael J. Boskin describes as the way in which 'government agencies have...made liberal use of creative accounting to keep institutions apparently solvent many years after they became fundamentally *insolvent*.'

"What bankers fear most is a run on their bank, when depositors lose confidence and withdraw large sums of cash from their accounts. Sometimes the run forces the bank to close its doors; other times the bank survives but at the expense of its credibility. From the Great Depression to 1980, there was only one major run on an American bank: Franklin National Bank's run in 1974, which precipitated the largest American bank failure in over thirty years. Between 1980 and 1984, however, there were five large runs on major banks: First Pennsylvania (1980), \$925 million; Greenwich Savings Bank (1982), \$430 million; First National Bank of Seattle (1983), \$900 million; First National Midland of Texas (1983), \$800 million; and the whopper – Continental Illinois (1984), \$15 billion. The *Wall Street Journal* reporters who compiled these statistics point to two contributing factors: the enormous concentration of deposits in a few hands that feeds any speculative run on a bank and the fact that 'large depositors...have access to modern-day telecommunications networks that carry news and rumors faster and farther than ever.'

"The \$7.5 billion bailout of Continental Illinois, the nation's eighth-largest bank, in 1984 was only the latest installment paid on the government's financial commitment to prop up the supranational banking system. It began ten years earlier with Franklin National Bank, a major international bank based on Long Island that

ranked among the top twenty in size in the United States. Franklin, like its German counterpart, Bankhaus Herstatt, which also found itself in difficulty at about the same time, thought it would make a killing in the new deregulated foreign exchange markets. The only problem was that it misjudged who would be the victim. With about 30 percent of its total deposits offshore in London and Nassau, Franklin was the epitome of the new breed of supranational bank: brash, innovative, and overextended in chancy foreign loans. Between May and October of 1974, nearly \$3 billion was withdrawn from Franklin – about a third from its offshore deposits – and the bank was forced to close its doors. Herstatt, also shoulder-deep in risky foreign dealings, shut down at the same time. The shock waves that rippled through the world's financial boardrooms were only a hint of what was to come later. But for the depositors in Franklin, and its other creditors who did not have the foresight to act in time, it was years of anxious waiting before their claims were adjudicated." (Watchel, *The Money Mandarins*, pp. 138-140.)

The Mega-Bailout of Continental Illinois by U.S. Taxpayers

"Ronald Reagan, the all-time champion free-marketeer, presided over the largest government nationalization in American history: Continental Illinois National Bank and Trust Company, in the spring and summer of 1984, a \$40 billion supranational bank and the country's eighth largest before it was assaulted by an enormous worldwide run on deposits. Like many supranational banks, Continental was over-extended in risky foreign loans and chancy loans to oil-exploration companies. It had made a bad portfolio worse when it purchased about \$1 billion of problematic energy loans in 1982 from the failed Penn Square National Bank in Oklahoma City. Continental had to raise about \$8 billion per day (half from foreign sources), called 'overnight money,' in order to open its doors each morning and conduct business. About 40 percent of the bank's deposits were in Eurodollar accounts.

"When the bubble burst, Continental was hit first by large withdrawals from its Eurodollar deposits. 'It's fine to fund your Eurodollar assets Eurodollar deposits, but Continental's mistake was using Eurodollars to fund their domestic loans,' the chief funding officer of another large international bank told the *Washington Post*. 'The Eurodollar market is one in which concerns can get out of hand swiftly and it's difficult to get them under control quickly.' With domestic deposits, a bank can telephone its large institutional depositors and implore them to sit tight and not precipitate large withdrawals. Such tactics are not as effective in the impersonal supranational Eurodollar market. After the rumor mills took over, everyone joined in, and when the dust had settled an estimated \$15 billion to \$20 billion had been pulled out of the bank, \$4 billion in one three-day period. The issue facing the Reagan administration was what to do with one of the country's largest banks, whose collapse six months before a presidential election could possibly set off a chain reaction that would bring the entire financial house of cards down with it.

"The solution that emerged was de facto nationalization. The Federal Deposit Insurance Corporation (FDIC), the federal agency that insures bank deposits, agreed to 'purchase' between \$3 billion and \$4 billion of bad debts held by Continental in return for stock in the bank and the right to name a new executive team that would run the bank within a strategy devised by the FDIC. That strategy called for downsizing the bank to about a \$20 billion enterprise that concentrated its banking energies on regional needs instead of the supranational, high-flying business that had gotten it into trouble.

"Commentators from within the banking industry lamented the demise of the supranational banking culture inside continental that would occur through this reorganization. James Wooden of Merrill Lynch told the *Wall Street Journal* that he thought the 'culture shock has to be incredible,' as the reporters put it, 'when low-paid FDIC regulators start calling the shots at Continental.' The plan to reduce Continental to a regional bank caused James D. Lowry, head of Equimark Corporation, to say: 'Culturally it isn't built that way. When the mind-set has been for so many years, 'We only deal with the mega-companies and the big bucks,' you can't turn around and start saying, 'It's a great honor to lend \$5 million to a guy in the machine-tool business.'"

"While bankers worried about Continental's pride and what might happen to the psyches of the new breed of supranational banker, the federal regulatory authorities knew they had to do more to stop the run on the bank than merely reorganize its management team. An infusion of cash of about \$7.5 billion was put together to assure depositors that Continental had enough money in its vaults to cover depositors' accounts and, thereby, plug the bank's leaky financial structure. The Federal Reserve bank of Chicago put up over \$5 billion, the FDIC more than \$2 billion, while twenty-eight private banks gave Continental an additional \$4 billion line of credit to draw on if they needed the money.

"The FDIC, in an unprecedented move, also announced that it would guarantee all deposits – even those over the \$100,000 level that is their statutory obligation and is displayed on decals in the windows of banks. The treasury secretary, Donald Regan, defended the FDIC's new role as lender-of-last-resort: "We want to make sure that in these perilous times, there is no doubt that we will support our banks. That doesn't mean that every bank will remain afloat, it doesn't mean that every bank will remain independent. But nevertheless, we will make certain that there will be no calamities in the banking system." But as the chairman of the House Banking Committee, Congressman Fernand St. Germain (D-Rhode Island), says: "The truth is that large banking institutions, despite all the talk about free enterprise, marketplaces and deregulation, do not fail under our system of government protection.

"Were there other options? Probably not, because the problems at Continental had been left to fester too long. The bank regulators had come to believe their own

reassuring statements that they periodically issue about the soundness of the American financial system. Faced with the Continental tremor, however, and the hypothetical horror of a complete financial collapse, the 'Reagan administration responded by propping up the ... system with massive government handouts, notwithstanding their persistent ideological defense of individual initiative and limited government intrusion into the economy. 'Coercive vulnerability is the ploy the bankers use so successfully in extracting federal aid,'" says the financial consultant Jamas Gipson, 'providing fresh public loans to paper over dubious private ones.' But the 'new loans do not come cheap,' he says and 'the effect of the administration's rescue policy is to leave the past profits in private hands while shifting the present and future losses to the taxpayers.' (Wachtel, *The Money Mandarins*, pp. 146-149.)

The Solvency of the Financial System is Periodically In Jeopardy

"The Third World has accumulated debt that cannot be managed without severe austerity, absent an alternative vision of structural reform in the global economy. The United States government is running a budget deficit that sucked in about \$850 billion from the rest of the world in 1984 to fund the highest federal government borrowing in its history. Banks are so overextended in their loan portfolios that the solvency of the financial system is periodically put into jeopardy. (Wachtel, *The Money Mandarins*, p. 150.)

The Quest for Short-Term Financial Gain by Global Corporations

"Between 1979 and 1984, almost a quarter of a trillion dollars was invested by U.S. firms abroad. During the decade of the 1970s, when supranationalization matured, foreign investment by U.S. multinationals grew at an average annual rate of nearly 19 percent compared with only a 12 percent rate of growth of investment inside the United States on average each year....

"...The multinational corporation, as *Business Week* noted in 1978, is an institution whose 'basic aim is to maximize world wide profits, without regard to source of product or national boundaries. U.S. multinational managers have no business reason, therefore, for preferring to export American-made products rather than producing the same goods in foreign plants. This authoritative magazine of business affairs saw no reason to change its view in 1980 when it went even further with analysis of the modern corporation:

"For 25 years, U.S. companies have been participating in the global market by investing heavily overseas.... Aided by an overvalued dollar, U.S. corporations bought heavily into European and Third World industry.... The mind set of corporation executives ... is based on selling products manufactured by plants and equipment overseas. Exporting from the U.S. is quite alien to most corporate executives, and the change in mentality itself will be traumatic.'

"A corporate culture that values the short-term financial ploy over long-term productive investment inside the United States, while shifting its standardized manufacturing activity to other countries, poses a serious problem for employment in the American economy during the remainder of this century and beyond." (Wachtel, *The Money Mandarins*, pp. 162-163.)

The Creation of Giant Monopolies Poses a Threat to Democratic Institutions

"In the six years from 1979 to 1984, nearly \$450 billion was spent in some fourteen thousand separate transactions by American corporations buying other corporations. These 'recent large-scale mergers,' says T.F. Russell, chairman of Federal-Mogul Corporation, 'have added nothing to the economy, and may have diverted investments from areas that needed beefing up.' The megabuck mergers involve companies that fueled America's great industrial revolution and made it the workshop of the world: U.S. Steel bought Marathon Oil for \$6 billion; du Pont bought Conoco for \$7.5 billion; Standard Oil of California bought Gulf oil for \$13.5 billion; and Texaco bought Getty Oil for \$10 billion. After the oil takeovers, broadcasting was next, starting with Capital Cities Communications' acquisition of ABC for \$3.5 billion. Arthur Burck, the Florida consultant on mergers and takeovers, warns that, 'the creation of gargantuan corporations with awesome economic and political power poses a threat to our democratic institutions,' and 'it is likely that by the year 2000, several score multinational corporations will control most of the nation's industrial assets. By then, our industry could be a stagnant mess, dominated by many dinosaurs.'" (Wachtel, *The Money Mandarins*, p. 170.)

Oil Will Remain a Strategic Commodity in the New World Order

"With the end of the Cold War, a new world order is taking shape. Economic competition, regional struggles, and ethnic rivalries may replace ideology as the focus of international – and national – conflict, aided and abetted by the proliferation of modern weaponry. But whatever the evolution of this new international order, oil will remain the strategic commodity, critical to national strategies and international politics." (Dan Yergin, *The Prize: The Epic Quest for Oil, Money and Power*, New York, Simon and Schuster, 1991, p. 14.)

The Birth of Mega-Firms on the World Stage

"A new group of power-seekers are leaping onto the world stage and seizing sizable chunks of the clout once controlled by nations alone. Some are good; some, decidedly evil...."

"The liberalization of finance has encouraged the growth of some six hundred mega-firms which used to be called 'multinationals' and which now account for about one fifth of value added in agriculture and industrial production in the world. The term multinational, however is obsolete. Mega-firms are essentially non-

national. . . . (Alvin Toffler, *Power Shift*, New York: Bantam Books; 1991, pp. 450, 454.)

Proposals for New International Institutions

"Proposals are coming hot and fast for all sorts of new global institutions to deal with ecology, arms control, monetary matters, tourism, telecommunications, as well as regional economic concerns. But who should control these agencies? Nation-states alone...?" (Alvin Toffler, *Power Shift*, p. 456.)

Questions Facing the Architects of the New Global Order

"... A key question facing the architects of the new global order is whether power should flow vertically or horizontally.

"A clear example of vertical organization is the European Community, which seeks to build, in effect, a supra-government that would, according to its critics, reduce the present countries of Europe to the status of provinces rather than sovereign nations – by imposing supra-national controls over currency, central banking, educational standards, environment, agriculture, and even national budgets.

"This traditional vertical model seeks to solve problems by adding another echelon to the power hierarchy. It is 'high-rise' institutional architecture.

"The alternative model, congruent with the emerging forms of organization in the business world and the advanced economies, flattens the hierarchy rather than extending it upward. It will be based on networks of alliances, consortia, specialized regulatory agencies, to accomplish ends too large for any single state. In this system there is no higher level of top-down control, and specialized agencies are not grouped hierarchically under a nonspecialized central body. It is the equivalent of 'low-rise' architecture. It parallels the flex-firm.

"Around the world today, the EC is being closely watched and, very often, taken as the only model for regional organization. Thus, the proposal to clone the EC is loudly heard, from the Maghreb and the Middle East to the Caribbean and the Pacific. A more revolutionary approach would be to lace existing organizations in each of the regions together, without imposing a new layer of control. The same might be done between nations.

"Japan and the United States, for example, are so closely intertwined economically, politically, and militarily, that decisions in one have immediate high-impact consequences in the other. Under these circumstances, the day may arrive when Japan will demand actual voting seats inside the Congress of the United States. In return, the United States would no doubt demand equivalent

representation in the Japanese Diet. In this way would be born the first of many political 'cross-national' parliaments or legislatures.

"Democracy presupposes that those affected by a decision have a right to participate in making the decision. If this is so, then many nations should, in fact, have seats in the U. S. Congress, whose decisions have greater impact on their lives than the decisions of their own politicians.

"As the world goes global, and the new system for wealth creation spreads, demands for cross-national political participation – and even cross-national voting – will bubble up from the vast populations who now feel themselves excluded from the decisions that shape their lives.

"But whatever form the global organizations of tomorrow assume, they will have to pay more attention, both positive and negative, to the Global Gladiators.

"To what extent should groups like religions and global corporations, as well as transnational trade unions, political parties, environmental movements, human rights organizations, and other such entities from the civil society be represented in the institutions now being planned for the world of tomorrow...?" (Alvin Toffler, *Power Shift*, pp. 457-458.)

A Shift of Power from Nation-States to Global Corporations

"Only countries willing to opt out of the new system of wealth creation forever can avoid plugging into the new global economy. Those who do connect with the world will necessarily be drawn into an interdependent global system populated not by nations alone, but by newly powerful Global Gladiators [Multinational Corporations] as well.

"We are witnessing a significant shift of power from individual or groups of nation-states to the Global Gladiators. This amounts to nothing less than the next global revolution in political forms.... To assume that such changes will happen without civil war and other conflicts, or that they can be contained within the obsolete frame of a nation-based world order, is both shortsighted and unimaginative. The sole certainty is that tomorrow will surprise us all.

"What is brilliantly clear, then, is that as the new systems of wealth creation moves across the planet it upsets all our ideas about economic development in the so-called South, explodes socialism in the 'East,' throws allies into killer competition, and calls into being a new, dramatically different global order – diverse, and risk-filled, at once hopeful and terrifying.

"New knowledge has overturned the world we knew and shaken the pillars of power that held it in place. Surveying the wreckage, ready once more to create a

new civilization, we stand, all together now at Ground Zero." (Alvin Toffler, *Power Shift*, pp. 459-460.)

A New Order is Being Born

"... The old geopolitical order is passing from the scene and a new order is being born....

"In the next century, Japan and Europe may supplant the United States as the chief superpowers wrangling for global economic supremacy. Only a radical transformation of American society can forestall this development and its political consequences. From their privileged technological perches, they will preside over a world that has embraced a common ideology of consumerism but is bitterly divided between rich and poor, threatened by a warming and polluted atmosphere, girdled by a dense network of airport metropolises for travel, and wired for instant worldwide communication. Money, information, goods, and people will move around the world at dizzying speeds....

"Since about the thirteenth century, when what could be called a capitalist market order emerged, there have been a series of successive economic structures, or forms, around which society has tended to organize. Each has been based on a specific technology – usually a technology of communication, energy, or transportation. This technology, in turn, is the economic engine propelling supply and demand. Broadly speaking, there have been eight such forms since the 1300s.

"Because today we are entering into a new market form – the ninth – we need to understand what defines such a form.

"At the center of each form is a dominant city where the essential financial, technical, cultural, and ideological (but not necessarily political) power is concentrated. An elite typically controls the market – the prices and the products; the elite accumulates the profits, controls the salaries and the workers, finances artists and explorers. The elite defines the ideology that supports its power. Religious revolutions are often determining factors. The currency of the center dominates international exchanges. Artists come from everywhere to build palaces and tombs, to paint portraits and landscapes.

"Around this center is a milieu, or hinterland, comprising many countries or developed regions that buy the products of the center. Here you find ancient or future centers, the regions in decline or on the rise.

"Farther away is the periphery, still partially ruled by the order of force, which contains the exploited regions that sell their primary resources and their labor to the center and to the hinterland without ever having access to the wealth of the center....

"From the thirteenth century to the twentieth century, eight successive forms emerged, characterized by:

"Eight major technological innovations, the principal ones being the printing press, accounting methods, stern steering mechanisms, the flyboat, the caravel, the steam engine, the internal combustion motor, the electric motor....

"The essential question that must be answered is, Who decides which region or city will become a center?

"A city becomes a center when a constellation of industrial and political elites organize themselves around a cultural project and harness their resources to develop new technologies and faster means of communication. Because of their innovative temperament and technological inventiveness, they are better suited than any other group in the world at a certain historical moment to satisfy a perceived universal need with a product....

"The model of how world centers develop and decline helps us to understand the period of transition we are now entering. It offers particular insight into the efforts of the United States to stem its removal as the country that contains the center of the eighth market form and prevent the rise of its challengers in Europe and Japan who seek to establish themselves as the location of the new center of a triumphant ninth market form. . .

"Traditional notions of national sovereignty are increasingly irrelevant. The fax machine and the videocassette make it possible to pierce the veil of state censorship. Nevertheless, even if the world seems daily to be growing closer, more homogeneous in its cultural values and material aspirations, even if large corporations are establishing themselves in all countries, power remains in the hands of an elite. An elite, moreover, that resides in those few places where power and wealth accumulate, where the critical questions facing the planet are decided.

"The eighth market form, whose center is New York is rent by a severe crisis. It faces fierce competition. Other regions of the world desire to become the center of a new market form. It is, of course, too early to predict with certainty where the future center of the world-economy will be. But we can see already a new world struggling to be born, heralding a new age of development....

". . . For the past half century, the world order has been organized around what might be described as a pyramid and two pillars. The pyramid is the shape taken by the eighth market form of the order of money. At its summit is the United States, with all other nations arranged in descending and hierarchical fashion around the American peak. The dollar ruled international currency, American popular culture reigned supreme. This basic fact has been the starting point for all thought and theory about the modern political economy.

"The two pillars, vestiges of the order of force, have been the two principal nuclear powers – the United States and the Soviet Union – who imposed their views on their respective alliances and were arbiters of regional conflicts. This basic fact has been the starting point for all thought and theory about contemporary military strategy.

"Today, this structure is dissolving before our eyes: the pyramid is changing its summit; one of the pillars is crumbling. America's position as the peak is under severe strain; in Eastern Europe, the order of force is giving way to the order of money. These developments are profoundly changing the nature of global economic struggle and military conflict. Soon one will no longer be able to speak strictly of North-South, or East-West. The old Cold War categories no longer pertain.

"It would be foolhardy to believe that either the utter demise of the United States or the complete dissolution of the Soviet Union are irreversibly established. It is only certain that the new center, in the sense given to this world in the preceding chapter, will consolidate somewhere in the two dominant spheres – Europe or the Pacific rim – and that Eastern Europe will rejoin the market economy. For the rest, everything depends on the way the changes are managed....

". . . The United States may host the center once again, but this would require a Herculean effort of national will in order to effectively harness the country's assets. That effort, in the degree that is required, will be difficult. If America's economic decline hardens into reality, Europe will suffer. But, if Western Europe is able to link Eastern Europe with its development, an integrated Europe has a chance to assume the role of the center of the world economy. It will then be able to develop as the most populated, the richest, and the most creative center in the world.

"If not, the new center will likely be Japan, for the island nation combines the necessary conditions for attracting global monetary, industrial, and even cultural power....

"These two emerging contenders for the role of center of the ninth market form have embarked on a vigorous competition. The stakes are high, for they are nothing less than the economic and political mastery of the world. Neither has yet triumphed over the other. Inside each of these competing spheres, one can see a considerable growth in trade and merchandise, in people, in information; this interior growth is even more rapid than that of external trade. Each sphere forms a homogenous, closed group. In each, the principal economic power – Japan on one side, the European Community on the other – is moving ahead of the principal military power: the United States on one side, the Soviet Union on the other. A process of increased integration and intensified rivalry is shaping this evolution....

"A communications revolution has already taken place in the transfer of information: the telephone the fax, cables, and satellites, all allow the transmission

– at any moment, to any location in the world, at virtually the speed of light – of drawings, designs, and images vital for industrial production and for individual use. It is no accident that the Japanese are leaders in this area....

"Tokyo is already a major center of global finance: it is where much of the world's profits and financial instruments are concentrated....

". . . National borders are increasingly irrelevant. And yet globalism is by no means triumphant. Tribalism of all kinds flourish. Irredentism abounds. Cries for 'self-determination' mount in a world in which the very idea of sovereignty is made meaningless by the seemingly intractable planetary problems that now confront humanity....

". . . The coming world order will be fraught with danger: the ninth market form, no matter where its center is located, will replace living acts with dead artifacts; it will treat nature as merchandise and turn man himself into a mass-produced commodity....

"We will need to muster a new political vision and found new institutions that can compensate for the inherent limitations of the nation-state, and the constraining logic of the market. A vision of global stewardship will require, above all, political leaders who recognize the need for limits and have the courage to abandon traditional notions of national sovereignty. Such a course will doubtless face enormous obstacles....

"Never before have people held as much power to shape their future as they do today....

"... [T]he world will change more in the next ten years than in any other period of history....

". . . This much is clear: between now and the year 2000, the order of money will become universal. From Santiago to Beijing, from Johannesburg to Moscow, all economic systems will worship at the altar of the market. People everywhere will sacrifice for the gods of profit. Two economic spheres – competing, unstable, but increasingly homogeneous – will struggle for supremacy, one organized around the Pacific, the other around Europe. They will compete for minds, methods, and markets. In each of them, military prowess will give way to economic might. Democracy will generally hold sway....

". . . There are many obstacles to be overcome before the tendency toward economic union [EC] finds its political expression. But it will one day happen, if only because without progress in this direction all other gains will have been placed in jeopardy. For example, if the creation of a monetary union does not rapidly lead to the creation of a central bank, and to a common currency, the free circulation of men, of capital, and of goods will have been made untenable....

"The challenges pushing us most urgently are the related issues of demographic explosion, poverty and drugs, the threat to the environment, genetic manipulation, and arms proliferation. We are far from fully understanding the implications of these problems. Solving them will require leaders who are prepared to accept an unpopular abandonment of sovereignty....

". . . The institutions of the United Nations were not designed for this mission. They have neither the means nor the mandate. They must move to a higher level of international organization by becoming institutions with a truly supernational authority, a genuine planetary political power that can impose standards in the areas in which the survival of the human species is at stake.

"Few countries will easily accept such a transfer of power. I do not underestimate the difficulty of gaining the democratic adherence of such a scheme in a world of 7 or 8 billion people (with 5 billion below the level of survival). In its embryonic form, a regular summit meeting of heads of state representing the nations of the different continents may foreshadow such institutions and clarify some of the needed standards. If not, they will be imposed by committees of self-appointed experts or by obscure cabals.

"International authority and institutions seem indispensable in at least five crucial areas: malnutrition, toxic gases, genetic engineering, armaments, and drugs. Saving children from sickness and ignorance requires the establishment of international finance organizations that devise new forms of donations and aid. Saving the environment requires a world agency to assess damage already done, such as to the ozone layer, and to establish standards of maximum allowable pollution, to measure deviations from such standards, and to aid poor countries in gaining access to technologies that will curtail and eventually eliminate pollutants of all kinds. Protecting the human species requires the establishment of universal standards that will allow us to control medically aided procreation, prenatal diagnostics, and genetic imprinting...." (Jacques Attali, *Millennium – Winners and Losers in the Coming World Order*, New York: Times Books, 1991, pp.3-5, 24, 25, 27, 29, 31, 35-39, 48-49, 51, 117-121, 123-126.)

U.S. Dominates International Financial Institutions

"Until only a few years ago, the United States essentially ran the IMF, the World Bank, the GATT, the Coordinating Committee on Multilateral Export Controls (CoCom), NATO, and other nominally international agencies of hegemony, usually through foreign national surrogates. This meant that its preferred financial policies, as well as its geopolitical politics, were most likely to carry the day. (Robert Kuttner, *The End of Laissez-Faire – National Purpose and the Global Economy after the Cold War*, New York: Alfred A. Knopf, 1992, p. 15.)

Nations Should Cede Their Sovereignty to International Institutions

"In the late 1940s, the United States was reluctant to cede sovereignty to international institutions because it was so strong; empowering organizations controlled by foreigners seemed an affront. Today, there is resistance to a new round of institution building because America seems too weak. It is easier to cling to the habits of American economic hegemony, and the false ideal of laissez-faire, even as those illusions corrode America's own well-being.

"But to rebuild the world system and to redefine America's national strategy within that system requires the same boldness and imagination as possessed by the statesmen of 1944. First, we need to acknowledge the reality of pluralism. One hopes, contrary to Professor Kindleberger, that the role of hegemon can be played by a concert of great nations, for no single nation currently has the combined political and economic stature to do the job single-handedly. Such a system would require nations to pool sovereignty and financial authority in several functional areas: in an international trade organization with real enforcement powers; in a genuine global public central bank or regional banks with a Keynesian bias toward high growth. (Robert Kuttner, *The End of Laissez-Faire – National Purpose and the Global Economy after the Cold War*, p. 23.)

Development of a European Central Bank

"The more venturesome European federalists have long argued that the EMS needs to evolve into a true European central bank with a single circulating currency. This idea of a common European currency, once proposed by Jean Monnet and seconded repeatedly by Robert Triffin, got an important practical boost at the Strasbourg European summit meeting in December 1989 when Jacques Delors's design for a European central bank and common currency, to be gradually phased in over more than a decade, was accepted. The idea is to create a central bank roughly modeled on the U.S. Federal Reserve, called 'Euro-fed'; then to establish permanent fixed parities, which would operate for a while in parallel with the ECU; and finally to convert all national currencies to the ECU. Several obstacles remain, of course, including Britain's nonmembership in the EMS, as well as Germany's awkward divided loyalties between the imperatives of European union on the one hand and the completion of German economic unification on the other. Yet at Strasbourg, the French insisted that progress on the money question would be the test of Germany's continuing good faith as an active European power, and in the end Germany embraced the French position. The French, in turn, implicitly accepted that the dominance of the Bundesbank pulls the rest of Europe toward a German-style macroeconomics – low inflation, slow but steady growth, and monetary discipline. At the same time, the more that the DM or the successor ECU comes to be used as a global currency, the greater is the risk of imported inflation. (Robert Kuttner, *The End of Laissez-Faire – National Purpose and the Global Economy after the Cold War*, p. 236.)

Development of a World Central Bank

"It is very likely that within a decade or so the preconditions could exist for a global monetary system...based on a few key currencies, in this case the dollar, the yen, and the mark or ECU. Yet evolution in this direction is complicated by several factors. One is the American reluctance to give up the perquisites of dollar domination; the other is the divided responsibilities of the new Germany. Thus far, German policy has given priority first to domestic monetary stability of the enlarged deutsche mark area, second to stability within the EMS, and only third to its still limited role as one of the global money managers. For the next several years, Germany will have its hands full reconciling its absorption of the former German Democratic Republic with its continental role as monetary hegemon for the EC. However, as European integration proceeds, the EC will increasingly become a single unit with economic and monetary strength equal to or greater than the United States.

"The EMS is sometimes held up as a model of an embryonic global central banking system, not unlike Keynes's original conception of a currency union. But if there are political obstacles to the creation of a single central bank and currency within Western Europe, which for forty years has been gradually moving toward political federation and economic union, there are obviously profound obstacles to the creation of a global central bank, the fourth alternative. A worldwide central bank modeled on the Federal Reserve would require nations to give up a significant degree of sovereignty in their monetary policies and hence substantial political sovereignty as well. In practice, a regime of more or less free trade has this effect in any event. If a nation has an irresponsibly inflationary monetary policy, its currency loses value and it suffers a balance-of-payments crisis. From a conservative perspective, this form of discipline has the virtue of seeming "objective" rather than deliberate. It is one thing to yield sovereignty, discreetly, to global market forces. It is quite something else to yield it to an explicit political institution or federation, which might have policies counterbalancing market imperatives. This was, of course, Keynes's insight at Bretton Woods. The world's financial markets would be unlikely to look kindly on a politically accountable genuine world central bank.

"Moreover, a world central bank would require far greater power-sharing between rich and poor nations. Under the present system, the world's smaller and less developed countries are subject to deliberate and explicit constraints under the aegis of the IMF and the World Bank. A generation of IMF "stabilization" programs has imposed austerity remedies on developing nations that wish to be certified as sound candidates for investment. The United States, one of the macroeconomic malefactors, has never been subject to the discipline of an IMF stabilization program. That would be an unthinkable affront, no matter how irresponsible the U.S. deficit. As the Romans said, *quod licet Jovi non licet bovi*: what is permitted the gods is not allowed to cattle. For the most part, it is the

world's smaller and poorer nations that have had to submit to the economic pain and political indignity of carrying out IMF-imposed "stabilization" schemes. When Britain had to succumb to an IMF plan in the mid-1970s, nothing could have been a surer signal that it had fallen from the ranks of the world's financial great powers.

"Any plan for a world central bank would founder on the same rock that wrecked the Keynes-White concept of the original IMF – a refusal by the great powers, particularly the United States, to cede sovereignty. Still, it is imaginable that within a decade or two the financial system will be something of a hybrid – a system based on three key currencies with a strengthened global bank. Politically, it will come clear by the year 2000 that the dollar is no longer hegemonic, especially if Europe continues its progress toward monetary union. Japan is already a significantly greater financial power than we, and Europe will soon pass the United States in gross national product. Japan and Europe are also net creditors, which the United States is not.

"When the United States is no longer dominant financially and the dollar gradually gives ground to the yen and the DM/ECU as a reserve and transaction currency, the U.S. will no longer be able to cling to the idea that it actually exercises hegemony. Monetary sovereignty with two other major powers would already be shared, and there would be no reason to resist sharing it with a global central bank as well. (Robert Kuttner, *The End of Laissez-Faire – National Purpose and the Global Economy after the Cold War*, pp. 237-238.)

The IMF Has Been Captured by International Bankers

"The role of the IMF as agent of austerity, orthodoxy, and private capital is an odd mutation from what was intended by Keynes. Far from being a counterweight to the 'bankers' internationalism' of the 1920s, the IMF has been thoroughly captured by private commercial banks and inflation-wary central banks, and its credit agreements are loaded with various forms of 'conditionality' imposed on struggling economies. There is an extensive and bitter literature from Third World experts on how IMF stabilizations have crushed struggling economies in order to save them. (Robert Kuttner, *The End of Laissez-Faire – National Purpose and the Global Economy after the Cold War*, p. 254.)

Ceding Sovereignty to a Global Central Bank with Power to Create Currency

"As we look forward to the twenty-first century, we must ask: What currency or currencies will function as the world's money, and subject to what blend of austerity and expansion as the strategy of adjustment and stabilization? What philosophy and what institutions will we have for the economic development of poorer nations – and the transition to market economies in the failed communist regimes? Will global banks like the IMF and the World Bank be engines of laissez-faire or sympathetic to mixed economies? How shall we reconcile systemic needs of world economic growth with the parochial interests of great powers and their

multinational firms and banks? As in 1944, the essential choice is whether to leave these questions to the tender mercies of markets and private economic forces or to balance markets with public institutions ultimately accountable to voters....

"A better alternative would be closer to Keynes's vision in 1944: a supranational institution very much like a world central bank with the power to create reserves that would become a substantial portion of the official reserves of most nations. The IMF has been only a most tepid version of this sort of institution. IMF Special Drawing Rights account for only 3 percent of world reserves today, less than in 1970, and the United States has generally resisted expanding them significantly. Keynes's proposed clearing union was user-friendly, allowing nations freely to draw on a line of credit up to a preset limit. The modern IMF is more like a debtors' prison and should be restored to its original vision.

"A true world central bank would require the ceding of a substantial degree of monetary sovereignty, which in turn would mean giving up a good deal of policymaking sovereignty as well. Ironically, of course, the incursion of the global "free market" upon the policymaking capacity of states has precisely this result in any event. As a matter of ideology and nationalism, it is no concession at all for conservatives to let global market forces and private capital gradually assume perquisites that once belonged to sovereign states. It is something else entirely to recognize what is taking place and to make a conscious decision to pool sovereignty the better to counterbalance market forces and private capital.

"A good deal of de facto sovereignty has already been ceded to markets. To the extent that sovereignty has been pooled..., it has been entrusted to perhaps the most conservative and market-oriented of all public institutions – central banks. Central bankers have an almost fanatical devotion to sound money, a fear of inflation, and an insistence that debts be paid. So although a regime of public and supranational institutions is in operation, the triad of central bankers, IMF, and World Bank has been so thoroughly creditor-oriented that it might as well have been the House of Rothschild or the House of Morgan..." (Robert Kuttner, *The End of Laissez-Faire – National Purpose and the Global Economy after the Cold War*, pp. 258-259, 260-261.)

Global Financial Integration and the End of Sovereignty

"The debate over European union reveals many examples of efforts to defend geography – or what in this context is often termed 'sovereignty' – despite the diminished sovereignty of nations in an integrated world economy....

"The erosion of sectorial barriers suggests that the world is moving towards German-style universal banking, but this conclusion is likely to mislead if that is to suggest that the German system will prevail in its entirety. German universality has two distinct characteristics: close ownership links between commerce and banks, and universality in terms of what a bank can do....

"A recent appraisal of the process of economic integration world wide reached the following broad conclusions ...: first, integration in the broader economic area is happening ... second, integration in finance is progressing at a faster pace than in other areas; and third, central to the pace of change is whether governments and people find such changes 'acceptable' – which in the context of this study translates as, are the public and private sectors of our economies ready for the end of geography....? [Sovereignty]

"It would seem too early to talk of a global currency; indeed, to envisage it today would probably bring the end-of-geography story into disrepute....

"There are two hopeful signs. First, the fungible nature of money does allow finance to flow more easily across borders.... Second, the shift from the nation-state to the trade bloc, despite the risks, is being driven in part by end-of-geography forces. This conclusion rests on the assumption that the expansion of organizations from the national to the regional stage is a precursor of the movement from the regional to a more global stage. Europe is integration on a regional basis because the separation into individual nations no longer makes sense. Of course, there is a strong effort to rebuild the national powerhouse at the regional level, which in the extreme could mean Fortress Europe....

"A more sober look at the crystal ball suggests a rather bumpy road toward seamlessness [end of sovereignty]: intense competition among financial firms, with major bankruptcies, forced mergers followed by massive shakeouts, crisis for customers and producers alike, repeated losses from overambitious investment in new technologies, financial crisis leading to the socialization of losses (a la S&Ls) and seemingly intractable problems in reconciling the fundamental differences between contrasting financial systems.

"Emerging from this discouraging scenario may be a reaction against end-of-geography [sovereignty] trends on two counts: policymakers could be increasingly called upon to protect not only the national interest but also that of the consumer Such a protectionist reaction against the end -of-geography suggests a nightmare prospect....

"The end of geography is, in many respects, all about the end or diminution of sovereignty. We are unlikely to witness governments presiding, actively and willingly, over their own demise....

"There is also a key difference between the public policymaker and the market participants in their respective attitudes to the end of geography. The [multinational] firm is far less wedded to the idea of geography. Ownership is more and more international and global, divorced from national definitions. Investors and borrowers think in international and global terms....

"Kenichi Ohmae (1990), in his 'borderless world,' hopes that 'government leaders will recognize that their role is to provide a steady and small hand, not to interfere....' But, as firms, regulators and marketplaces compete on the 1990s, it will be very hard for governments to avoid intervening to protect the consumer and the system. The consumer and the financial firms are likely to be the worst offenders in calling on governments to intervene when it suits, and to keep out at other times. It will be tempting to take a nationalistic, populist line as it tries to determine where its priorities lie, especially when the very power of government, vis-a-vis other governments, is threatened. The siren calls put out by national champions, whether firms or markets should be ignored...." (Richard O'Brien, Chief Economist, American Express Bank, *Global Financial Integration: The End of Geography*, London: Royal Institute of International Affairs, 1992, pp. 2, 5, 26, 83, 86, 90-91, 99, 100.)

The End of National Sovereignty

"The world is now tied together by an electronic network that carries news and data, good and bad, true or false, with the speed of light anywhere on this planet....

"The information technology...is rapidly creating a situation that might be described as the twilight of sovereignty, since the absolute power of the state to act alone both internally against its own citizens and externally against other nation's affairs is rapidly being attenuated....

"The information revolution is profoundly threatening the power structures of the world, and with good reason. The nature and powers of the sovereign state are being altered and even compromised in fundamental ways. The geopolitical map of the world is being redrawn....

"Sovereignty, defined by the Dictionary of International Law as 'the supreme undivided authority possessed by a state to enact and enforce its law with respect to all persons, property, and events within its borders,' is one of the most important ordering ideas of the modern world, a bulwark of modern power structures. Yet it is a relatively recent idea, first given to us in full-bodied form by the great Dutch jurist Hugo Grotius in his seminal work *DeJuro Belli et Pacis* (concerning the Law of War and Peace), in 1625. It is possible to imagine a world in which state sovereignty as we know it did not exist or existed in substantially altered form.

"As the dictionary definition implies, sovereignty has always been, in part, based on the idea of territoriality. The extent of a sovereign's reach has usually been defined by geographic borders....

"The velocity of change in economics, technology, science, and military capabilities is shifting the tectonic plates of national sovereignty and power.

"Our tractional aspect of sovereignty has been the power of nation-states to issue currency and mandate its value.... As the information revolution has rendered borders porous to huge volumes of high-spied information, it has deprived them of that power....

"Our tractional aspect of sovereignty has been the power of nation-states to issue currency and mandate its value.... As the information revolution has rendered borders porous to huge volumes of high-spied information it has deprived them of that power....

"The entire globe is now tied together in a single electronic market moving at the speed of light....

"The world can no longer be understood as a collection of national economies. The electronic infrastructure that now ties the world together; as well as great advances in the efficiency of conventional transportation, are creating a single global economy....

"On the global business front, the new word is 'alliances.' Almost everyday one reads about an American company and a Japanese company or a Swedish company and a German company – the list of combinations is endless – forming an alliance to offer a new product in a multinational horizontal integration of manufacturing, marketing, finance, and research. As these alliances grow and strengthen over time, it will become harder and harder for politicians to unscramble the emerging global economy and reassert their declining power to regulate national life....

"The old political boundaries of nation-states are being made obsolete by an alliance of commerce and technology. Political borders, long the cause of wars, are becoming porous....

"Satellites have made borders utterly porous to information....

"The new source of wealth is not material; it is information, knowledge applied to work to create value. The pursuit of wealth is now largely the pursuit of information and the application of intellectual capital to the means of production....

"When the world's most precious resource is immaterial, the economic doctrines, social structures, and political systems that evolved in a world devoted to the service of matter became rapidly ill suited to cope with the new situation....

"The emergence of information as the preeminent form of capital reverses this drift toward centralizing power. The nation-state will not disappear; indeed, we will see many new nations formed. Nor will sovereignty vanish either as an idea or as an institution. But the power of the state will diminish, particularly its sovereign power....

"A truly global economy...will require concessions of national power and compromises of national sovereignty that seemed impossible a few years ago and which even now we can but partly imagine. Such an economy cannot be readily contained or controlled by mercantilist or protectionist strategies. The attempts of sovereign states to cut off an control little bits of the world market for their own advantage will be more obviously futile than ever in the past....

"...The world communications infrastructure...has made a reality of Marshall McLuhan's global village by drawing nearly all the world into a single global conversation....

"This market, of billions of plugged in 'culture traders,' is now the most powerful social and political force in the world....

"The global network is the essential infrastructure of that economy, and it promises to make its users into a single worldwide community sharing many tastes and opinions, styles of dress, forms of government, and modes of thought. These people, on the whole, will be internationalists in their outlook and will approve and encourage the worldwide erosion of traditional sovereignty. They will feel more affinity to their fellow global conversationalists than to those of their countrymen....

"In the world we are building today it is almost impossible to assert sovereignty over information because information and the pathways over which it travels, including the heavens themselves, are shared in common....

"The control of information is the bedrock of all totalitarian regimes....

"A traditional aspect of sovereignty has been the power to issue currency and to control its value....

"Technology has made us a 'global' community in the literal sense of the word. Whether we are ready or not, mankind now has a completely integrated, international financial and information marketplace capable of moving money and ideas to any place on this planet in minutes....

"The power of sovereign states to control commerce between its citizens and the citizens of other nations has been a jealously guarded right as long as nation-states have existed....

"The most remarkable example of economic integration, on a regional basis, is the rapid progress made by the EEC toward turning Europe into a single market....

"Clearly, a common currency will be the final step in a completely integrated market, and the EEC has moved toward this eventuality, but this surrender of

sovereignty touches the very heart of the nation-state. To lose control of the right to issue currency is an attack upon one of sovereignty's most valued rights....

"The single market comes at a real cost in traditional power and sovereign prerogatives: Brussels, where the European Commission and the European Parliament are located, now entertains more lobbyists than any city in the world other than Washington [D.C.], testimony to how much power has shifted toward this transovereign body....

"All of this has profound effects upon the ancient concept of sovereignty. The sanctity of national borders is an artifact of another age....

"Borders are no longer boundaries, technology has made them porous...." (Walter B. Wriston, Former Chairman, Citicorp, *The Twilight of Sovereignty*, New York, Charles Scribner's Sons, 1992, pp. xi, xii, 2,7, 8-9, 11-12, 19, 34-35, 37,44-45, 46-47, 52, 56, 61, 77, 87-88, 89-90.)

Technology Is Concentrating Wealth and Power

"While relatively cheap technology has made information accessible, the cost of obtaining that information is usually rather steep. As a result, though information is produced plentifully, its effect has so far been to concentrate wealth and power even more." (Joel Kurtzman, *The Death of Money*, New York, Little, Brown & Co., 1993, p. 48.)

The U.S. Assumed the Role of the World's Financial Manager and Global Policeman at a Cost of \$7 Trillion Dollars

"Before Mr. Nixon worked his magic [closing the gold window on August 15, 1971], the world economy was governed by what were called the Bretton Woods Agreements, named after the town of Bretton Woods, New Hampshire, where the agreements were negotiated and signed on July 22, 1944. The main feature of the Bretton Woods system was that all of the world's major trading currencies were rigidly linked to the dollar in a system of fixed-exchange rates. The dollar, at the center of the system, had its value anchored firmly to gold. The Treasury Department was obligated by law to redeem foreign held dollars for gold at the official rate of \$35 an ounce. The gold window was where those dollars were redeemed.

"Because the dollar was convertible to gold and all other currencies were convertible to dollars at fixed rates, the world was effectively on the gold standard, even though no one publicly said so. Countries could expand their money supplies only if they could maintain the value of their currencies against the gold-based dollar. Effectively, that meant the world's money supply expanded at about the same rate of growth. Dollars, francs, pounds, and fire were produced, roughly, as they were needed for the orderly expansion of growth and trade. The real economy

and the money economy expanded and contracted together. They were balanced on a fulcrum of gold....

"But there was a problem with the Bretton Woods postwar system that ultimately led to its ruin and to Nixon's abandonment of its rules. The problem was this: The Bretton Woods system demanded too much from its leader, the United States. It demanded not only that the United States assume the role of the world's financial manager but also that it be the world's policeman. The role of global policeman was simply too much for one nation to bear, even one as wealthy, productive, and powerful as post-World War II America. It was also expensive beyond belief.

"American taxpayers might send their sons to war, but they resented sending their money to Washington to pay for those wars. As a consequence, American politicians maintained the world order not through taxation but by borrowing or simply printing money....

"What were the costs of being the world's policeman? Almost \$7 trillion during the Bretton Woods period, according to Melman. Much of that \$7 trillion was paid for simply by running the printing presses. (Two trillion dollars of this debt remains outstanding.) What is this immense expenditure equal to in human terms? From the end of World War II until Nixon's resignation in 1973, the 'military consumed sufficient resources to more than rebuild everything in the United States that is man-made,' said Melman. 'That means that the entire industrial infrastructure of the United States could have been rebuilt from the ground up. All the factories, roads, airports, ports, bridges, everything existing today could have been made anew. Imagine the effect this would have had on our nation's competitiveness.'" (Joel Kurtzman, *The Death of Money*, pp. 52-53, 54-55, 58-59.)

The Trend Toward the Global Economy

"The changes we are witnessing today did not simply arrive fully formed. They are part of a wrenching, longer-term shift away from the nation-state and toward the world-as-a-whole as the fundamental unit of economic activity. This trend, which is fraught with contradictions, filled with competing interests, and plagued by setbacks, is nevertheless moving ahead. And short of nuclear war, nuclear accident, plague, or a massive chemical spill, it will continue to move ahead at an increasingly rapid pace." (Joel Kurtzman, *The Death of Money*, pp. 206.)

The Concept of National Sovereignty Must Change

"For the average man or woman the emergence of such a tightly linked global economy has been invisible. These changes move like the hands of a clock, too slow to see if looked at directly but unrelenting in their pace when viewed intermittently over time. But they also move at the speed of light – the speed of the electron – too fast to see even if viewed straight-on.

"As a consequence the world we now inhabit is markedly different from the world of a decade or two ago. The jobs we hold, the way we work, the companies that employ us, and the sectors in which our country excels have changed. In the span of a decade or two a host of old and comfortable patterns have been completely dislodged. As the functional economic unit becomes the world instead of the nation-state, the structure of nations and the notion of sovereignty must change. 'My notion is, said Jib Fowles, 'that the world is beginning to resemble one gigantic hive.' (Joel Kurtzman, *The Death of Money*, p 214-215.)

Rebellion Over Loss of National Sovereignty

"...Countries connected to the global electronic economy, like the millions of computers connected to a network, are becoming part of the vast and highly integrated global workshop and economy. But as they do, their citizens rebel against the inevitable loss of identity and national sovereignty. Men and women around the world chafe at becoming just another interchangeable part of the new world economy – an accounting 'input,' a unit of labor. As a result, a new 'tribalism' has emerged. From the ex-Soviet Union to Bosnia and Canada, people are demanding the right to express their ethnic identities.

"No one really likes to be a cog in the international economic and business machine. People do not want to be factored into the global equation as a depository of raw materials (the Middle East, Mexico, and Canada), a market or a pool of industrial and production talent (Europe, Japan, and the United States), a place to locate a research lab (Switzerland and Israel), or a future market (the ex-Soviet Union and the Third World). Communities around the world that are linked electronically to this newly integrated world system are increasingly uncomfortable with their loss of control over their own destinies as they integrate into the global workshop." (Joel Kurtzman, *The Death of Money*, pp. 215-216.)

The Demise of the Nation-State and National Sovereignty

"Marshall McLuhan, the late Canadian social scientist, was one of the first to observe how these two competing economic influences – globalization and the uneasiness that comes from the loss of local and national control – would manifest themselves. Along with the globalization of the economy, McLuhan said, comes a countervailing trend toward parochialism, localism, nationalism, chauvinism, ethnocentrism, fundamentalism, and racism.

"McLuhan said that globalism, telecommunications, air travel, the modern media, and computers were changing the way we analyze problems, organize companies, structure countries, value one another, and even use our five senses. Indeed, McLuhan's Canada is a good example of the dichotomies that are developing between the global economy and the local community. For example, the Canadian government had relatively little trouble signing a free-trade agreement with the United States that would deprive Canada of many of its most

cherished national rights when it comes to trade and the economy. The Canadian federal government, the provincial governments, and its labor unions and political parties supported Canada's further integration into the American economy and the world economy. Free access to American capital, markets, and technology were powerful inducements to Canada's business community even though it meant that their home government could no longer protect them. For these companies the risks were clearly worth it.

"But when it came to the purely local and largely symbolic issue of the Meech Lake Accords, which would give French-speaking Quebec more autonomy and the French language more clout while keeping Canada a single country, the country's leaders balked. Outside of Quebec, Canada's English language chauvinism and anti-French feelings have become even more intense as Canada joins the global economy. Provincialism and ethnocentrism are on the rise in Canada as globalism looms overhead.

"This 'up-and-down trend,' as the *Economist* newspaper once put it, is happening worldwide. In countries everywhere the two trends compete: integration into the global grid, on the one hand; greater local identification, on the other. Could it be, asks the *Economist*, that it is time to say 'goodbye to the nation-state'?

"McLuhan predicted that there would be an increase in ethnic identification accompanying globalization. As a consequence, ethnic and linguistic rivalries within Canada may eventually force the country to dissolve as a nation-state, just as it becomes even more integrated into the global grid. As a fragmented entity with a diminished economy, Canada's global clout and bargaining power would only be lessened. The ability of its separate ethnic communities to survive independently would be in doubt. Canada would thereby join the international economy not as the nation it once was, occupying a huge portion of the world's geography, but as a cluster of companies, communities, talents, and resources linked electronically and structurally to other such entities around the world and with its laws harmonized with those of the United States through the free-trade agreement.

"Such a state, however, is abstract, vague, and ethereal. A cluster of productive interests is not much for its citizens to identify with. It is hard to sing a national hymn or sacrifice one's life to the multinational economic interests that support you. It is hard to be loyal to the economic band that supports you when it is controlled by people at various points around the world.

"In a world where the functional unit is the globe, people tend to identify more deeply with their own races, religions, cultures, neighborhoods, villages, towns, and cities than with the planetary economy as a whole. If for some reason they fail to identify with their own localities and ethnic identities, then they are lost to the

loneliness of alienation, a term Karl Marx coined in his critique of capitalism over a century ago.

"This, then, is an emerging pattern. On the big issue of joining the new world system, no country remains opposed for very long. Britain, France, and Italy gave up a great deal of their economic and political sovereignty to join the European Community, which is dominated by their ancient enemy, a unified Germany. Canada gladly gave up its sovereign rights and joined the United States in a free-trade agreement. Mexico, which has made anti-Americanism into a quasi-state religion, allowed its president, Carlos Salinas de Gortari, to come to Washington with a plan to link the two economies legally, with very little protest from his constituents at home. Every nation in the Western community of nations, seeing the big picture, went along with barely a whisper of discontent and official discord. But on the local issues of race, ethnicity, and local control over local institutions, they stand firm.

"The big trade treaties and agreements, and the ones that will be arrived at in the future that will include the newly liberated countries of Eastern Europe and the Soviet Union, represent nothing less than the demise of the old nation-state system and the rise of an entirely new form of shared sovereignty. It is a new world that is organized along networked lines.

"A high price is to be paid for the demise of the nation-state. 'What we are seeing now,' said Benjamin Weiner, a former foreign service officer who is president of Probe International, a firm that advises businesses and governments on political risks around the world, 'is the growth of ethnic rivalries. Ethnic rivalries are replacing politically motivated terrorism as the biggest threat to business. We are seeing it in every region of the world' including the Soviet Union, Africa, Canada, Yugoslavia, and, Weiner added, the United States. (Joel Kurtzman, *The Death of Money*, pp. 216-218.)

The End of the Nation-State

"The electronic economy will only intensify this trend toward localism, particularism, provincialism, nationalism, and racism among people whose lives and identities are disrupted by the end of the nation-state. In a worst-case scenario, right-wing Nazi-like movements will develop throughout the world as countries lose power and control and as the average man and woman feels more threatened by a global economy that is increasingly abstract and remote.

"In the worst-case scenario, religious intolerance will also increase, and fundamentalism – in all its guises and in all its different religious forms – will increase as the average man and woman grope for something big and powerful to cling to. Fundamentalism will increase as people's lives are made to seem insignificant by the creation of a single, massive, global economy whose

enterprises are loyal to no one, bigger than everyone, and under no one nation's control.

"Even in the best-case scenario, the forces of nationalism will grow as Americans want to be more American, Germans more German, and the French more French. Within each of these countries, each region will also assert itself – Southern culture, Western culture, Northern and Eastern culture-as the notion of the nation-state gives way." (Joel Kurtzman, *The Death of Money*, pp. 224-225.)

Former Soviet Union and China Will Join the International System

"Marshall McLuhan saw the deep tension between decentralization and globalization as the essential – but largely invisible – dichotomy of our electronic age. These two forces, precipitated by the rise of satellites, global electronics, and the ease of jet travel, would alter all our institutions, change our society, and create a new economy, he said.

"The first victim of these changes would be the old forms of corporate hierarchy and rigidly centralized government. The old notion of an infallible chief executive at the top of an obedient chain of command, protected by (and from) his troops, could not survive the information age. That old structure would be unable to compete in an electronic world where information is disseminated at the speed of light and where notions of up, down, near, and far have no meaning.

"McLuhan also predicted that sharply hierarchical organizations would be replaced by flatter structures where telecommunications technology linked all parts of the company into a more organically functioning whole. Like others over the years, he predicted that each operating unit would have to have more autonomy and flexibility in order to compete and survive in the new global environment.

"In the new electronically linked world, McLuhan predicted management would change from a hierarchy to a 'widearchy,' with lateral links, like alliances, and who sits on whose board of directors often would be more important than ownership links. Indeed, Japan's companies, through their Keiretsu system, are networked together in tightly linked business groups, often with minimal cross-ownership but maximum cross-control. A number of American companies, such as IBM, Ford, and Boeing, are said to be developing their own Keiretsus.

"The second victim of the dichotomy between the forces of economic globalization and decentralization, McLuhan shrewdly predicted, would be communism. Almost three decades ago McLuhan wrote that communism was on the verge of extinction. The Soviet model, he said, with its highly centralized command economy, guarded information, and hierarchies taller than the Kremlin's onion domes, was out of phase with the new global electronic reality.

"In 1968, he wrote, 'Communism is something that lies more than a century behind us, and we are deep into the new age of tribal involvement.' By tribal, McLuhan meant ethnic. Even in the 1960s McLuhan was able to divine that Marxism could not survive. But it took until 1991, when the Soviet Union met its demise – to be replaced by a commonwealth of ethnic republics – for McLuhan to be proved correct.

"These captive republics became free of Moscow not just because they stood up to the power of the Kremlin but also because the Kremlin – like all highly centralized governments – was an outmoded institution. As the Russian republic rises from its ruins, it will strive to join the megabyte economy, employ its workers in the global workshop, and conduct its affairs openly in the global economy, no differently from any other country. The Russians know that if they choose to remain isolated from the rest of the world, they will fall further behind. No country and no people cut off from the world's fertile flow of information can maintain economic power for very long. In the electronic world, Moscow is no nearer to Kiev than it is to Los Angeles or Lima, Peru.

"And China is no different. The era when a centralized bureaucracy could control a population and an economy as vast and complicated as China's has passed. Two hundred and fifty million households with access to vital information in underground newspapers are taken directly from the airwaves, through international radio broadcasts, off satellites, from voice and videotape cassettes smuggled into the country – and all spread rapidly over telephone lines and through face-to-face gossip of friends – cannot be controlled by a few hundred people in the top echelons of the Communist party.

"For China to enter the modern age and grow, it has no choice but to decentralize its control over its population and its economy, and join the international system. (Joel Kurtzman, *The Death of Money*, pp. 224-225.)

The Need for Corporate Socialism and Management of the Economy

"The market must be managed and regulated.... It must be planned....

"The countries that have done the best over the last decade or two are those with the most egalitarian distribution of wealth and with governments that regulate the market and plan. By American standards, Japan's income and wealth distribution are so equal, they are downright communist....

"...We need policymakers who realize that while America has been caught in stasis, Europe and Japan have grown and even surpassed it.

"The market has many, but not all, of the answers. It is time for our policymakers to temper their faith in the market with an assessment of what we have received in return. They must realize that today's short-term mentality is a

response to volatility. Our policymakers must reexamine the successes of the European nations and Japan and recognize that, in the world's fastest-growing and most successful countries, the invisible hand of the market has always had a measure of help from the very visible hands of government. We Americans deserve no less." (Joel Kurtzman, *The Death of Money*, pp. 230, 231, 240-241.)

Margaret Thatcher Loses Her Position as Prime Minister Over the Issue of European Integration

"In the spring of 1991 British prime minister Margaret Thatcher lost her job. She had not lost an election. It was not obvious that she would. She lost her job because she insisted on playing the old twentieth-century economic game. She simply would not recognize that the world had changed and that she would have to change with it. She would not play the twenty-first century's economic game. Having lost touch with reality, she had to be pushed aside by those who were previously her allies.

"Her downfall arose over the issue of European integration. Her stated purpose was to preserve the powers of the Bank of England to control money supplies and set British interest rates. She saw losing these powers as 'the greatest abdication of national and parliamentary sovereignty in our history.' She did not understand that these economic powers were no longer within her national political power. In the new world economy what Mrs. Thatcher wanted to do could not be done – even though it had always been done in the past.

"As of January 1, 1993, any European bank will be able to place an office in any other European city without government permission. When this happens, everyone will borrow in the country where interest rates were lowest and lend in the country where interest rates were highest – making interest rates the same everywhere in Europe. Mrs. Thatcher's only real choice was to join the European Monetary System (EMS) and have the power to appoint some of the members of a new European central bank, or refuse to do so and watch the German Bundesbank, in the absence of any British votes, gradually become the effective central bank for Europe. To retain any economic power over interest rates for the United Kingdom, she had to participate.

"If England did not stay in the Community and did not join the EMS, the financial capital of Europe would move from London to Frankfurt. Finance, Britain's most important industry, would almost certainly be lost. Even with England's full participation in the European Community (EC), with Germany as Europe's leading economic power, it is going to be difficult to keep Europe's financial capital in London. The City of London simply cannot afford the handicap of being outside the European Monetary Union. As a result, a conservative financial community had to dump a conservative prime minister.

"In the end Mrs. Thatcher lost her job because she could not come to grips with the new economic realities. She didn't like European integration, but she could neither leave the European Community (Britain could not prosper without being a member) nor stop its further integration (if necessary, the other members would integrate without Britain)...." (Lester Thurow, *Head to Head: The Coming Economic Battle Among Japan, Europe, and America*, New York: Warner Books, Inc., 1993, pp. 27-28.)

A World Economic War is Raging

"Looking backward, future historians will see the twentieth century as a century of niche competition and the twenty-first century as a century of head-to-head competition. In 1950 the United States had a per capita GNP four times that of West Germany and fifteen times that of Japan. What were high-wage products from the Japanese perspective were low-wage products in West Germany. What were high-wage products in West Germany were low-wage products in America. As a result, imports from West Germany or Japan were not seen as threatening the good jobs that Americans wanted. Conversely, America's exports did not threaten good jobs in West Germany or Japan. The United States exported agricultural products that they could not grow, raw materials that they did not have, and high-tech products, such as civilian jet airlines, that they could not build.

"The 1990s start from a very different place. In broad terms there are now three relatively equal contenders – Japan; the European Community, centered around its most powerful country, Germany; and the United States. Measured in terms of external purchasing power (how much can be bought if one's income is spent abroad), the per capita GNPs of Japan and Germany are slightly larger than that of the United States. The exact amount depends upon the precise value of the dollar, mark, and yen when the measurements are made. Measured in terms of internal purchasing power (how much can be bought if one's income is spent at home), America's per capita GNP is higher than that of West Germany or Japan. The precise amount depends upon whether the measurements include social services (the Germans get many more than Americans) and leisure (in Germany scheduled hours of annual work are about 10 percent less than that in America, Germans are absent from work ten days more per year, and many fewer German women are in the paid labor force), or only private goods and services.

"Consumer standards of living are one aspect of success, but production abilities are another. Depending upon the industry under consideration, leadership can now be found in Germany, Japan, and the United States. The United States no longer leads in everything. In some areas, such as automobiles, it is a follower, and in others, such as consumer electronics, it is not even a player.

"Where American firms used to dwarf their competitors, they now find themselves increasingly on the small side. In 1970, 64 of the world's 100 largest

industrial corporations were found in the United States, 26 were found in Europe, and only 8 in Japan. By 1988 only 42 of the 100 largest were located in the United States, 33 were located in Europe, and 15 were located in Japan. In the chemical industry the three biggest firms are all found in Germany. Each is at least one third bigger than Du Pont – America's largest chemical company. Outside manufacturing, the same trends exist. In 1970, 19 of the world's 50 largest banks were North American, 16 were European, and 11 were Japanese. By 1988 only 5 were North American, 17 were European, and 24 were Japanese. In 1990 there were no American banks in the top 20. In the service sector 9 of the 10 largest firms are now Japanese.

"But starting from approximately the same level of economic development, each country or region now wants exactly the same industries to insure that its citizens have the highest standards of living in the twenty-first century. Ask Japan, Germany, and the United States to name those industries that they think are necessary to give their citizens a world-class standard of living in the first half of the twenty-first century, and they will return remarkably similar lists – microelectronics, biotechnology, the new materials-science industries, telecommunications, civilian aviation, robotics plus machine tools, and computers plus software.

"What was an era of niche competition in the last half of the twentieth century will become an era of head-to-head competition in the first half of the twenty-first century. Niche competition is win-win. Everyone has a place where they can excel; no one is going to be driven out of business. Head-to-head competition is win-lose. Not everyone will get those seven key industries. Some will win; some will lose.

"The shift to head-to-head competition can be seen in the language of current economic discourse. In the Japanese, but not the American, version of the book *The Japan That Can Say No*, Mr. Ishihara states that the superpower military warfare of the twentieth century will be replaced by economic warfare in the twenty-first century, and that Japan will be the winner of the twenty-first century's economic wars. In the American version he talks about 'the Pacific age.' Nomura Securities sees a world where 'competition in the marketplace could well become extremely intense.'

"Similar views exist in Germany. On German television in February 1990, Chancellor Helmut Kohl of West Germany issued his counter declaration of economic war: 'The 1990s will be the decade of the Europeans and not that of the Japanese.' Implicitly, Chancellor Kohl sees an America already out of the game. The same point has been bluntly put by the prime minister of France, Edith Cresson: 'There is a world economic war on.' The rotating head of the EEC and foreign minister of Italy, Gianni De Michelis, thinks that 'all this points to Europe recovering its role as the core of the world economy. The next ten years will make

evident Japan's big short comings.' (Lester Thurow, *Head to Head: The Coming Economic Battle Among Japan, Europe, and America*, pp. 28-31.)

Secret Meeting Among Largest Business Groups in the World

"In March 1990 the two biggest business groups in the world (the Mitsubishi group from Japan and the Daimler Benz-Deutsche Bank group from Germany) held a secret meeting in Singapore to talk about a global alliance. Among other things, both were interested in expanding their market share in civilian aircraft production. From an American perspective everything about that Singapore meeting was criminally illegal. It violated both antitrust and banking laws. In the United States banks cannot own industrial firms and businesses cannot sit down behind closed doors to plan joint strategies. Those doing so get thrown into jail for extended periods of time. Yet in today's world Americans cannot force the rest of the world to play the economic game as Americans think it should be played. The game will be played under international, not American rules." (Lester Thurrow, *Head to Head: The Coming Economic Battle among Japan, Europe and America*, p. 35.)

The Role of Corporate Socialism in Japan and Europe

"Both Europe and Japan believe that government has a role to play in economic growth. Airbus Industries, a civilian aircraft manufacturer owned by the British, French, German, and Spanish governments, is an expression of a pan-European strategy. It was designed to break the American monopoly and get Europe back into civilian aircraft manufacturing. Today it is a success, as it has captured 20 percent of the aircraft market and announced plans to double production and capture one third of the worldwide market by the mid-1990s.

"But that success came at a high price. An earlier effort, the Concorde, was a technical success but an expensive economic failure. Airbus Industries itself required twenty-six billion dollars in government investments and a captive market in the form of government-owned airlines to become successful. Only twenty-eight planes were built in 1986, but two hundred planes will be built in 1993. McDonnell Douglas's market share has been reduced from 30 to 15 percent. In 1990 Boeing's market share of new orders dropped to 45 percent – the first time in decades it had been below 50 percent. If 747's are not included (Airbus Industries has no plane in this market niche), Airbus Industries actually outsold Boeing. In this industry a greater European share can only mean a smaller market share for Boeing and the demise of McDonnell Douglas.

"There are now a number of similar pan-European strategic efforts (Jessi, Eureka, Esprit, Vision 1250) under way. Each is designed to help European firms compete in some major industry. European governments spend from 1.75 percent (Great Britain) to 5.5 percent (Italy) of their GNP in aiding their industries. If the United States were to spend what Germany spends (2.5 percent of GNP), it would

be spending more than \$140 billion to help its industries in 1991. In the economy that grew the fastest in Europe in the 1980s, that of Spain, government-owned firms produce at least half of the GDP. In France and Italy the state sector accounts for one-third of GNP.

"Germany, the dominant European economic power, sees itself as having a 'social-market' economy and not just a 'market' economy. Codetermination is required to broaden the ranks of corporate stakeholders beyond that of the traditional capitalistic owners to include workers. German governments (state and federal) own more shares in more industries (airlines, autos, steel, chemicals, electric power, transportation – some outright, some partially) than any noncommunist country on the face of the globe. Public investments such as Airbus Industries are not controversial political issues. Privatization is not sweeping across Germany as it did across Great Britain.

"Government is believed to have an important role in insuring that everyone has the skills necessary to participate in the market. Germany's socially financed apprenticeship system is the envy of the world. Social-welfare policies are seen as a necessary part of a market economy. Unfettered capitalism is believed to generate levels of income inequality that are unacceptable. (Lester Thurow, *Head to Head: The Coming Economic Battle Among Japan, Europe, and America*, pp. 35-36.)

Fiscal and Monetary Cooperation Among the Trilateral Nations

"To work, a multipolar, integrated, open world economy requires fiscal and monetary coordination among the major countries – Germany, Japan, and the United States. A common locomotive is needed, and it can only exist if the major countries stimulate or restrict their economies in unison. (Lester Thurow, *Head to Head: The Coming Economic Battle Among Japan, Europe, and America*, p. 60.)

The Formation of the House of Europe Is Unstoppable

"The federation of Europe will take a long time. It has already taken almost forty years just to get to the point where border controls can be abolished. Another century may well be necessary to complete economic and political integration. Progress will be erratic – two steps forward, one step back, one step to the left, one step to the right.

"It is easy to make a long list of difficult issues that will have to be resolved. The list can easily be used to argue that real European integration will never occur. But the formation of the House of Europe is now unstoppable. First, the opportunities to create an integrated House of Europe are just too good to pass up. An opportunity as good as this one hasn't existed since the fall of the Roman Empire. Second, the need to compete against the Americans and the Japanese in a global economy almost demands that the House of Europe be built. It isn't, the

individual countries of Europe will find themselves economically marginalized between two much bigger, more aggressive economies. Third, enough integration has now occurred to make it very difficult for anyone to withdraw. Fourth, an internal dynamic has been set up whereby each step forward essentially forces the participants to take further steps forward.

"The ever-tighter degree of economic integration that is required by steps taken in the past is neatly illustrated in a sequence that began with the decision to build a European Exchange Rate System (ERS) to prevent the destabilizing effects of large currency fluctuations – a step taken to insure that business firms could make large investments without the risk that sudden large currency swings would make them worthless. But once the ERS was in place, it was obvious that if it were to work, monetary policies would have to be harmonized. If one country were to print money much faster than the rest of Europe, the value of its currency could not be stabilized. As a result, the existence of the ERS essentially forced the Europeans to think about a European Monetary System (EMS), the details of which are now under active development.

"But once monetary policies are linked, it becomes necessary to start talking about a European central bank if one does not want the German Bundesbank to become the de facto central bank for Europe. Since each country will want to have some influence on monetary policies, and since this influence is only to be had if there is a European central bank, it is only a question of time until a European central bank comes into existence. Vague discussions are now under way.

"But if common monetary policies are adopted, then limits must be placed on government fiscal deficits if the deficits of individual countries are not to absorb the capital funds that other member states want to put into private investment in plant and equipment. Monetary coordination forces fiscal coordination. Similarly once markets are opened to flows of goods across national boundaries in 1993, business firms from different European countries will require a level playing field where each faces approximately the same taxes and social charges. If taxes were not equalized, production would simply move to the country where taxes were lowest, and the lowest-spending country would essentially force everyone else to adjust to their expenditure patterns. To prevent this from happening, the harmonization of taxes and social charges is now being negotiated in Brussels.

"To equalize taxes, countries must agree upon common spending patterns. With similar taxes and similar spending patterns, national governments lose many of their traditional economic powers. In this circumstance, giving more political power to a European parliament doesn't seem like such a radical change.

"Political integration will lag economic integration, but economic integration inevitably forces political integration. Quick, collective foreign-policy decisions will be the most difficult of all – witness Europe's problems in coming to grips

with the Persian Gulf War or the civil war in Yugoslavia. But the House of Europe will be built.

"Adding Middle and Eastern Europe to the House of Europe is also going to be a slow process, although several countries have already signaled their desires to join. The short run economic prospects for rapid growth in the ex-communist countries were grossly exaggerated when communism first started to disappear. The transition from central planning to the market is going to be much slower and much more painful than was originally imagined. The human and physical infrastructure of capitalism will have to be built – both will take a long time.

"To start a capitalistic economy, there must be some initial distribution of resources – property rights. All of those things now technically owned by the state have to be given or sold to someone. Who is to get them? What is the fair way to distribute existing economic resources? Neither the theory nor history of Western capitalism provides any answers. There is no right initial distribution of property in a market economy. Market economies can adjust to any initial distribution of property rights – no matter how equal or unequal. Historically, Western capitalism sometimes began by taking the distribution of property rights that came out of feudalism (Britain), and sometimes began by having a revolution to alter the feudal distribution of property rights (France). Lacking theoretical or historical guidelines for handing out property, Middle and Eastern Europe will spend a lot of time figuring out how to do it. Yet markets cannot start until it is clear who owns what. Who has the right to sell what? Who can collect rent from whom?

"Some countries will solve their problems faster than other countries, but the transition will occur. The transition will occur because everyone in Middle and Eastern Europe understands that communism is dead and that they cannot go back to the old system. They have no alternative but to try something different. They may fail in their efforts and end up joining the Third World, but they have to change." (Lester Thurow, *Head to Head: The Coming Economic Battle Among Japan, Europe, and America*, pp. 69-72.)

Writing the Trading Rules for the Twenty-First Century

"The world has outgrown the GATT-Bretton Woods trading system and must build a new system based on the realities of a tripolar economic world. Irresistible forces cannot be resisted. If the pressures cannot be relieved in logical ways (a new Bretton Woods conference), they will be relieved in other ways. Since a new Bretton Woods conference cannot be held without a dominant power to force agreements, the European negotiations at Brussels will become the de facto new Bretton Woods conference. As the European Community harmonizes its internal rules and regulations, decides the conditions of access for outsiders, and offers associate memberships to other European nations such as Switzerland or

Czechoslovakia, it will effectively be writing the rules of international trade for the next century. Whatever rules it adopts, others will learn to play by those rules.

"It is an old axiom of history that the rules of trade are written by those who control access to the world's largest market. Everyone else needs access to that market and has no choice but to play by the rules of the game. It was always thus. Britain wrote the rules of world trade in the nineteenth century. The United States did it in the twentieth century. As the world's largest market, the House of Europe will be writing the rules of world trade in the twenty-first century, and the rest of the world will simply have to learn to play their economic game. (Lester Thurow, *Head to Head: The Coming Economic Battle Among Japan, Europe, and America*, p. 75.)

Germany Is Not a Bastion of Free Trade

"...Germany is simply not the bastion of free trade that it is often made out to be in the United States. In a *New York Times* article entitled 'Greetings from Fortress Germany,' it is described as follows: 'Although less pervasive than in Japan, protectionism in Germany is often just as deep-rooted and effective. The telecommunication, banking, insurance, electrical utility, and chemical industries, for example, operate as virtual cartels. It is almost impossible for a foreign company to enter those markets without a German partner. Other barriers include restrictive laws, massive Government subsidies, and the rigid protocols of a clannish, old-boy network that dominates the economy....' (Lester Thurow, *Head to Head: The Coming Economic Battle Among Japan, Europe, and America*, p. 79-80.)

Japan Has a Desire to Conquer the World

"In my trips to Europe I hear over and over again from private businessmen and public officials the phrase 'We are not going to let the Japanese do in Europe what they have already done in the United States.' What many have been saying privately for a long time, the prime minister of France, Edith Cresson, now says publicly. 'Japan is an adversary that doesn't play by the rules and has an absolute desire to conquer the world. You have to be naive or blind not to recognize that.' 'The Japanese have a strategy of world conquest. They have finished their job in the United States. Now they are about to devour Europe.' (Lester Thurow, *Head to Head: The Coming Economic Battle Among Japan, Europe, and America*, p. 81.)

The Development of Managed Trade on a Regional Basis

"In the long run, regionalism may well be a positive development for the world. Free trade within regions and managed trade between regions may well be the long-run route to free world trade. Jumping in one big leap from national economies to a world economy is simply too big a leap to make.; It is necessary to

take smaller intermediate steps first, and quasi trading blocks combined with managed trade may be just such a necessary intermediate step....

During the transition from the GATT-Bretton Woods system to a system of quasi trading blocks with managed trade, there is apt to be a great deal of uncertainty. While it will be clear that the old GATT-Bretton Woods system no longer exists, the exact parameters of a new system combining quasi trading blocks with managed trade will be murky. (Lester Thurow, *Head to Head: The Coming Economic Battle Among Japan, Europe, and America*, pp. 82 & 85.)

Japan Secretly Aspires to be the World's Leading Economic Power

"...The Japanese secret is to be found in the fact that they have tapped a universal human desire to build, to belong to an empire, to conquer neighboring empires, and to become the world's leading economic power. Their goal is market-share maximization (strategic conquest) and value-added maximization (a measure that includes profits and wages), not simple profit maximization...." (Lester Thurow, *Head to Head: The Coming Economic Battle Among Japan, Europe, and America*, p. 118.)

Corporations Are Developing World Empires

"Empires don't exist because there are great individuals who force their leadership upon resistant followers. Empires exist because individuals want to be part of a group, want to have the security that can only be had if one is part of a group, want to be held in esteem by those above and below them in the group's pecking order, and want a place to build and lead – even if they are not the supreme builder or leader that history will remember....

"In the modern world, corporations offer the best opportunities for empire building....

"To have power over others requires an institution where there are strong voluntary incentives to participate and where exit is not easy. One cannot really lead – exercise control over others, organize activities where some real degree of personal self-sacrifice is both demanded and given – unless there are real rewards and punishments. The modern industrial leader is not a general who can shoot deserters, but he is a leader who can hand out real punishments and rewards. Individuals can be demoted or fired, banished from the group, deprived of security, belongingness, and the esteem of others. Individuals can be promoted. Economic soldiers can be made into officers; majors can be made into generals. Together, individuals can build something bigger than they could ever dream of building by themselves. Men and women can conquer markets much as they used to conquer neighboring clans. (Lester Thurow, *Head to Head: The Coming Economic Battle Among Japan, Europe, and America*, 120 & 121.)

The Trilateral Nations Will Set Policies for the World

"Together, America, Japan, and Germany are large enough to be the locomotive pulling the rest of the world into prosperity. If they act together, the rest of the world has little choice but to adopt similar policies...." (Lester Thurow, *Head to Head: The Coming Economic Battle Among Japan, Europe, and America*, p. 239.)

Lender of Last Resort

"Nations have learned through brutal experience that they need managers for their financial systems. Usually, the necessary institutions were created after disasters such as the stock-market crash of 1929. With the development of a world financial system, the world needs a financial manager just as much.

"Developed countries need lenders of last resort when financial panics, such as the crash of October 1987, strike. In that particular case close coordination between the world's major central banks essentially created a temporary world central bank until the crisis was over. But circumstances may well arise when ad hoc coordination does not work.

"Developing countries need a real world central bank to clean up the mess in their financial systems, much as the American banking authorities are now cleaning up the mess in America's savings and loan industry. In both cases there is plenty of blame to be assessed as to who created the mess, but the real problem is not in assessing blame or in punishing the wicked but in restoring the financial system to health so that real growth can resume. If the Second World and Third World are to start growing (and it is in everyone's long-run self-interest that they do so as soon as possible), some system has to be devised for handling the outstanding international debts that they have incurred in the past but cannot be repaid in the future. As long as those debts exist, growth cannot resume.

"Only a world lender of last resort can deal with the existing debt problems, since only it can assume the losses that will have to be assumed. To force the private banks that originally made the loans to assume the losses would simply be to create a commercial banking crisis that would rival the existing savings and loan crisis. In the end the taxpayer would have to pick up these costs, and they undoubtedly would be larger than any costs associated with a world central bank.

"Second and Third World debt problems have been given to the World Bank and the International Monetary Fund to solve, but these institutions can only continue to put patches on a system that already has too many patches. Neither institutions was designed to deal with debt problems; neither has the necessary instruments at its disposal. They can stave off collapse, but they cannot return Second and Third World financial systems to health." (Lester Thurow, *Head to Head: The Coming Economic Battle Among Japan, Europe, and America*, New York: Bantam Books, Inc, 1993, pp. 239-240.)

Japanese Financial Success Is Due to Exports

"Japanese success has been based upon an export-led economy. Exports were the fastest growing part of the economy...." (Lester Thurow, *Head to Head: The Coming Economic Battle Among Japan, Europe, and America*, p. 249.)

A Global Environmental Protection Agency with Coercive Powers

"Let's not deceive ourselves. It is necessary that the community of nations exert pressure, even using coercion, against countries that have installations that threaten the environment. International instruments must be transformed into instruments of coercion, of sanctions, of boycott, even – perhaps in 15 years' time of outright confiscation of any dangerous installation. What we seek, to be frank, is the legitimacy of controlling the application of the international decisions...."

"We need a real world authority, to which should be delegated the follow up of the international decisions, like the treaties signed [at Rio, June 1992].... This authority must have the capacity to have its decisions obeyed. Therefore, we need means of control and sanctions. I well know the nervousness of some countries when they consider their sovereignty to be threatened. But we are not dealing with national problems. These problems are international. Pollution knows no borders and the sea level cannot change in one place without changing in another.... Obviously, this supranational authority must be a world authority." (Michael Rocard, Former Prime Minister of France. Quoted in Dixy Lee Ray, *Environmental Overkill*, Washington, D.C., Regency Gateway, 1993, pp. 10-11.)

Global Corporations Dominate the World Economy

"The TNCs [Trans-national Companies] have gained an increasing share of world trade. According to Dr. Kevin Watkins of Oxfam:

"Traditionally international trade is seen as an activity carried out between nations. In reality, trade flows are dominated by powerful corporations located overwhelmingly in Western Europe, North America and Japan. In 1985, the combined sales of the world's largest TNCs exceeded \$3 trillion, equivalent to one third of the world's Gross Domestic Product.'

"The number of branches, subsidiaries, and affiliates of TNCs from the industrialized countries is estimated to be around 100,000. Smaller TNCs do exist but the larger ones dominate. At least 65 million people are directly employed by TNCs, 43 million in the home countries and 22 million in host countries, representing about 3 per cent of the total estimated workforce throughout the world of over 2000 million. According to the World Bank TNCs control 70 per cent of world trade. In 1990, the world's largest 350 TNCs accounted for almost 40 per cent of world merchandise trade which then totalled US \$3485 billion. The top 500

TNCs control two thirds of world trade. In addition over 40 per cent of international trade is carried out *within* TNCs.

"The amounts of money involved are staggering. More than 35,000 TNCs now account for \$1.7 trillion in foreign direct investment and global sales totalling \$4.4 trillion. The 15 largest global corporations today, including names like General Motors, Exxon, IBM, and Royal Dutch Shell, have a gross income larger than the GDP of over 120 countries, including almost all Third World countries except for the very largest. In 1970, over half the 7,000 TNCs traced by the UN were based in the USA or UK. In 1990, just under half the 35,000 TNCs it found were from four countries: USA, Japan, Germany and Switzerland, with the UK now seventh most popular TNC base. Excepting South Korea, all the top 500 industrial companies listed in the US business magazine *Fortune's* Fortune 500 are headquartered in the North with the USA home to 167, Japan to 111, the UK to 43, Germany to 32, and France to 29. The combined wealth of the top 500 manufacturing and top 500 banking and insurance companies amounts to US \$10 trillion, twice the USA's GDP.

"Within trade sectors, a similar picture of global concentration emerges and this has devastating effects. According to UN figures, almost all primary commodities are each now marketed by fewer than six multi-commodity traders. For example, Cargill – a family-owned Canadian corporation – has a greater sales turnover in coffee alone than the GDP of any of the African countries in which it purchases coffee beans. Cargill also accounts for over 60 per cent of world trade in cereals. According to Christian Aid, the low prices of world primary commodities, produced by Third World countries overwhelmingly, is in part due to the existence of so many commodity producers but so few commodity buyers, i.e. companies. And it is right. The top five companies have 77 per cent of world cereal trade; the biggest three companies in bananas have 80 per cent of world banana trade; the biggest three cocoa companies have 83 per cent of world cocoa trade; the biggest three companies have 85 per cent of tea trade; and the biggest four companies have 87 per cent of world trade in tobacco.

"Consumers may be bedazzled for choice when they go food shopping, but behind the many products and brands are often relatively few owner companies with enormous power. For instance, one US company, Sara Lee, owns coffee brands in Europe which have 74 per cent of the Netherlands market, 27 per cent of Denmark's, 21 per cent of Spain's and 15 per cent of France's. A large study in the 1980s for the UN found very high levels of TNC control in the world's food markets. And of 189 TNCs which had turnovers of above \$300 million in 1976, all but one were based in the developed world – the exception, Bunge and Born was one of the world's giant grain traders. One hundred of these TNCs had revenues of over \$1 billion and five above \$10 billion, even then. This food power was being used to diversify into other sectors – shipping, tobacco, finance, pharmaceuticals. Only a sixth were not diversifying.

"High levels of concentration are not just the preserve of primary commodities. By 1989, the world's top 20 agro-chemical companies accounted for 94 per cent of world trade – nine of these were companies from Europe, six from the USA and five from Japan. The top 14 car companies produced four out of five of the world's cars; of these, three based in the USA produce 33 per cent; six based in Japan produce 25 per cent; and Europe's companies produce 21.5 per cent. The same concentration and disparity between the industrialized world and the developing world is happening in one of the world's fastest growing sectors – telecommunications. Western Europe (the EC and the European Free Trade Area (EFTA) combined) is the largest world market, at 47 per cent of the overall world market. North America has 32 per cent, Asia 11.5 per cent and South America only 2 per cent. Ten TNCs control 66 per cent of the world semi-conductor industry and nine telecommunications TNCs control 89 per cent of that market. In computing, IBM owns more than 60 per cent of the world main frame computer market. TNC capital is the source of these big corporations' power.

"We could go on, but the big question is whether this level of concentration matters. We think it does for three reasons. Firstly, it hands over power to unelected and unaccountable people. The top 87 finance companies in the world for instance are valued at US \$1,300 billion, a concentration of power which gives a relatively small number of boards of directors extraordinary control over a high proportion of the world's liquid capital upon which investment (which can either improve or threaten people's standards of living) depends. Secondly, concentration means that power gets more distant from the ordinary consumer. When consumers shop, they face many products, but few owners, and decisions about their local market may be being taken on the other side of the world. Thirdly, concentration affects standards of production which affect the quality of life...." (Tim Lang and Colin Hines, *The New Protectionism: Protecting the Future against Free Trade*, New York, The New Press, 1993, pp. 34-36.)

A Web of International Institutions is Making Up a Global Confederal Government

". . . Although a single and increasingly interdependent global political process is emerging, America's difficulty in exercising effective global authority within it – because of inner weaknesses derived more from cultural than from economic causes – could produce a situation of intensifying global instability....

"To be sure, the only long-term alternative to global anarchy is some form of a global confederal structure. The term 'global confederation' may be a better description of what might gradually emerge than 'world government,' if the novel global political process assumes increasingly cooperative forms....

"However, the global political process – assuming that the forces of chaos do not come to dominate the world scene – is generating progressively deepening

cooperation on a global scale. That cooperation has to assume, and is assuming, organizational forms, expressed through the growth in number and in power of international bodies, both of a functional type (such as the various multilateral organizations) and of a common cooperative and increasingly also decision-making political organ, namely the Security Council of the UN. The result is a web of institutions that cumulatively express the reality of international interdependence. That web, furthermore, is not a static but a dynamic condition: it involves a progressive expansion in the scope of the authority wielded by the various bodies, prompting the step-by-step emergence of what is in effect a rudimentary confederal governmental structure of worldwide scope.... (Zbigniew Brzezinski *Out of Control: Global Turmoil on the Eve of the Twenty-First Century*, New York: Charles Scribner's Sons, 1993, pp. xiii, 150-151.)

The Geopolitical Map of the World

"American power by itself will be insufficient to impose the American concept of 'a new world order.' Just as important, the inclination toward cultural hedonism may make it more difficult for America to develop a shared language with those major portions of mankind that will feel they are excluded from meaningful participation in world affairs. As a consequence, they are likely to be on the lookout for some mobilizing message and some relevant example around which to rally in a comprehensive challenge to the global status quo.

"In any case, it is almost a certainty that the geopolitical map of the world will become increasingly complex. Instead of a new world order, the states that possess power and wealth will group together, so that they can better compete against their rivals and so that they can better protect their assets. In specific terms, this foreshadows the emergence of several principal clusters, with America spilling over into some of them but probably with a declining capacity to decisively determine the internal policies of clusters other than its own. These clusters will be in effect both competitive regional economic blocs as well as political alliances, with the political alliances (especially with America, undertaken for security purposes) in some cases mitigating the economic rivalries.

"The probable global power clusters, which will collude, cooperate, and compete with one another within the more interdependent but still unstable global political process, are likely to include:

"1. North America, dominated by the United States, organized on the basis of the North American Free Trade Area, creating thereby the world's single most powerful economic bloc, and probably also leading in time to the gradual integration of Canada with the United States (perhaps becoming at some point a more formal North American confederation. Its zone of dependence will be the rest of the Western Hemisphere, with Cuba overthrowing its communist system at the latest following Fidel Castro's death.

"2. Europe, probably integrated economically, but with its political unity lagging considerably behind economic integration, and thus still faced with the problem of a powerful Germany, and with Europe's eastern boundaries in a state of flux, given the continued uncertainties of the post communist transition. Its zone of dependence will be both Eastern Europe as well as much of Africa.

"3. East Asia, dominated economically by Japan, but lacking a commensurate political and security framework, and thus potentially vulnerable to regional tensions, especially as China begins to flex its economic as we the world's deprives. Its zone of dependence is likely to be the far eastern portions of the former Soviet Union, as well as Southeast Asia and also Australia and New Zealand...." (Zbigniew Brzezinski, *Out of Control*, pp. 206-207.)

Institutionalizing a Global Community Among the Trilateral Nations

"In our age the profoundest problems that humanity faces have become too great for the nation-state...to handle...[T]he world today needs more than the nation-state to organize global peace, to promote global welfare, to diffuse globally the fruits of science and technology, and to cope with global environmental problems. All of these things can be done more effectively and rationally if nation-states are encouraged to cooperate in the setting of a larger community that reflects what unites them and submerges what has traditionally divided them.

"Accordingly, to institutionalize the progressive emergence of such a common global community new forms of enhanced cooperation will have to evolve along two major axes: the trilateral relationship among the world's richest and democratic states of Europe, America, and East Asia (notably Japan); and through the United Nations as the wider and more representative framework of global politics. This will require a redefinition not only of America's world role but also the adoption by Europe as well as Japan of a broader outlook; and it will require the deliberate enhancement of the UN's political role, even at some cost to the unilateral power of some presently dominant states.

"The gradual redistribution of responsibilities within the trilateral relationship is needed in order to stimulate a wider appreciation within the more advanced and prosperous portions of the world of a common and shared responsibility both for peace and for peaceful change. . . (Zbigniew Brzezinski, *Out of Control*, pp. 221-222.)

The Development of Giant Monopolies Through International Corporate Alliances

"The way the world economy works has changed dramatically during the past forty-five years. In general, firms have adapted faster than governments. Over time the gap between existing regulations and reality has grown so large that it

interferes with effective management of global commerce, and discourages economic growth.

"Government officials and business leaders are looking for answers to three questions. First, does the spread of activist government policies on international competition necessarily imply an end to an open and integrated world economy? Our answer is no: countries can open markets to foreign competition and embrace industrial policies simultaneously. We define *open industrial policy* as one that gives foreign firms the freedom to contest local markets, not one that removes all trade barriers. Some economists worry that new nontariff barriers and restrictions on foreign investment will undermine the integration of the world economy created by the post-1945 regime for free trade. We believe that they are confusing closure with interventionist responses to new economic challenges. Governments are beginning to regulate open, competitive markets in new ways. New global policy responses are needed, but the open world economy is not on the verge of collapse.

"Since World War II the distinctive corporate management style, economic organization, and political relations of U.S. industry with Washington have been the standard for the world market. Global rules evolved in response to the agenda of competitive issues raised by firms rooted in U.S.-style approaches (which were themselves a variant of a century of British tradition). The second question is related to the structure and behavior of firms: can the implicit model of the relationship between firms and governments on which world trade rules has rested since 1945 be sustained? In short, what will be the fate of the U.S. model of industrial organization that has dominated global commerce in one form or another since the mid-nineteenth century? Can the U.S. model be revived, or must it be replaced? Our answer is that the old model of industrial organization is obsolete and needs to be replaced by a new one.

"The redistribution of economic power from the United States to Japan and Europe means that new styles of industrial organization will share the strategic center. We contend that the old model for organizing international commerce is as out of date as American hegemony. The United States is still the greatest military power on the earth, the U.S. economy still eclipses Japanese and resurgent European economic might and could rebound in the 1990s, but the United States no longer can manage the world economy alone, and neither Japan nor Europe is able to or seeks to assume the mantle of hegemonic leadership. Therefore, countries and companies need to find new ways to manage global economic relations.

"New national rules for managing world commerce already have emerged. As new forms of government strategy for advancing economic growth (such as industrial targeting by Japan) have advanced to the forefront, corporations react and adapt, usually more rapidly than governments. The emergence of transnational corporations (TNCs) and later of international corporate alliances (ICAs) were

logical reactions by private firms to changing circumstances. ICAs were part of the problem for policymakers but part of the solution for private firms.

"The U.S. model is being supplanted. For the international economic order to thrive, it must adapt and solve the problems posed by the globalization of the private sector. The process of developing and implementing a new model is already underway. It is significant that as governments and corporations struggle to make this transition, the nature of international economic relations is being transformed: free trade and investment were at the heart of the old model; market access, fair competition, and the internationalization of domestic regulations will be at the core of the emerging model of international commerce.

"As firms change, they are making national economies more interdependent. Even if governments introduce new forms of oversight to manage competition, greater interdependence is likely. Governments may protect national firms, but the production and technology of many firms already are so global that world economic integration will proceed on a competitive basis. The third question follows from the other two: in the future will it be possible for governments to sustain the traditional tools for managing world commerce? In other words, will policy makers continue to rely mainly on multilateral trade agreements, emphasize trade as the leading edge of global commerce, and assume that domestic and international economic policies are separate and independent from each other? Again, our answer is no. New ordering principles are needed that redefine the boundaries separating global and regional, trade and investment, domestic and international, and goods and services.

"The story of international relations until the 1960s was about the cumulative extension of the power of sovereign territorial states over political and economic affairs. One of the most dramatic changes of the past three decades is the growth of political and economic activity outside the traditional jurisdiction and organizing principles of states. The European Community is the most obvious example. An EC corporation may someday have an EC charter and have rights and duties defined by a blend of EC and national laws. The European Community is unlikely to replace the individual European states as the ultimate source of political authority, but U.S. officials recognize that a complaint against Airbus is already a complaint against the European Community as well as several member governments. Alliances are corporate responses to fundamental economic trends, to market imperfections created by government rules, and to global corporate missions that cannot easily be organized by traditional national rules and economic infrastructures.

"Alliances between firms from different countries are not a new phenomenon. For decades, transnational corporations have operated joint ventures with local firms in host countries. Most commonly, joint ventures linked a large TNC from an industrial country with a small firm based in a developing country. Most of these

joint ventures operated exclusively in the developing country. Usually they were formed to satisfy local rules concerning ownership and production, because the laws of many countries require that their citizens control a minimum percentage of any major business. Similarly, many countries insist that a portion of inputs into the production process be sourced locally. To meet such requirements, transnational corporations often entered into joint ventures with local firms. Typically, the foreign TNC retained majority ownership and management control over the local operation. To earn their minority shares, local investors generally provided the required local content.

"Partnership arrangements also linked firms from industrial countries. For example, NEC, one of Japan's most visible high-technology firms, was set up in 1899 as Japan's first joint venture with a U.S. company – Western Electric. ITT acquired Western Electric's interest in 1925, and NEC eventually 'freed itself from this affiliation and began to grow as an independent company' in 1965. ITT remained NEC's largest stockholder until the early 1970s. In many of these ventures the local partner supplied low-priority products or inputs that the TNC used throughout its global operations. Original-equipment manufacturing deals usually involved products that were considered to be outside the core business of the company that purchased them. Thus if Olivetti relied on Japanese suppliers for facsimile machines offered in its own consumer product line the Olivetti almost certainly did not intend to built its strategic advantage in the electronic marketplace on this technology.

"By the early 1980s a new type of joint venture emerged that focused more on strategic processes, products, and markets. Giant firms like AT& T, Philips, General Motors, and Toyota entered into international corporate alliances that joined leading strategic competitors from different countries.

"We define *international corporate alliances* (ICAs) as ongoing relationships between companies from two or more countries that involve significant markets, products, R&D, and other important process technologies that shape the strategy of global market leaders. An international corporate alliance between General Motors and Toyota occurs if one or more vehicles important to the plans of both firms in key markets are jointly produced on an ongoing basis; the project by itself is so significant to both firms that we consider it an ICA. If Toyota enters a coproduction arrangement with a subsidiary of Tata Industries in India, however, this is not classified as an ICA; it is a traditional joint venture even though Tata is an important Indian industrial group. Finally, Ford and Mazda may have minority ownership positions in Kia Motors of Korea, which provides them with low-end vehicles for sale internationally. Kia is more than a provider of local content, the product is strategic for Ford, and although Kia is not now a strategic competitor to Ford, it could become one. The Ford alliance therefore is part of a pattern of relationships that is transforming Ford (and General Motors). No two or three alliances may equal the importance of Ford in the market, but Ford itself may rely

on a dozen alliances to keep it competitive. Thus Kia is part of the ICAs of Ford because the company's central strategy relies directly on a group of ICAs for key products and processes." (Peter F. Cowhey and Jonathan D. Aronson, *Managing the World Economy: The Consequences of Corporate Alliances*, New York: Council On Foreign Relations, 1993, pp. 3-7.)

The Endangered American Dream

Americans like to think of themselves as a generous, warmhearted but also very practical people, quite naturally resistant to ideological fascinations. Before its downfall, Marxism-Leninism won the intense loyalty of millions all over the world, from poets and philosophers to seemingly tough-minded trade unionists. But in America only a handful of eccentrics ever fell into the trap.

Yet there is one ideology that grips the American mind – the ideology of free trade. Elite Americans are no longer seriously churchgoing but their unquestioning faith in the ideology of free trade is intact. Just as Marxism-Leninism offered the promise of prosperity for all, in exchange for giving all power to an all-wise party leadership, free-trade ideology too offers a large and attractive promise and demands something in exchange: the greatest possible prosperity for each and all in the entire world economy, if only no effort is made to protect anyone with tariffs or any other artificial barriers to free trade. And just as Marxism-Leninism was based on the theory that if capitalists were eliminated their wealth would remain and grow even more rapidly, free-trade ideology is based on the theory of "comparative advantage": if England is more efficient than Portugal in producing textiles, and Portugal is more efficient than England in producing wine, both countries are better off if England produces all the textiles they both need, and Portugal produces all the wine, each then importing its unmet need from the other.

That is the theory taught in every economics class and printed in every textbook. It is logical to a fault. Why should the Portuguese strain to produce, say, three yards of woolen cloth when, with the same effort, they could take advantage of their favorable climate to produce, say, four barrels of good port wine, then ship just one to pay for the import of, say, five yards of better British cloth? As a snapshot the theory is beyond dispute. Yet it is fatally defective, because it ignores economic and technological development; in fact it ignores the future altogether.

For one thing, as prosperity grows and people are no longer content with one work outfit and one Sunday outfit, the demand for textiles increases by 200%, 300%, 500% over the years. By contrast, the individual demand for wine grows little if at all, leaving the Portuguese economy stagnant except for sheer population growth, while the English economy grows rapidly in this textiles-and-wine world. For another, the theory of free trade ignores the very different technological potential of each industry: over the years, textile producers can mechanize and

eventually computerize their production, while wine is still pressed by the bare feet of peasants.

Most important by far is what happens to each society over time under the rules of free trade: the British textile industry and its skilled workers, foremen, designers, engineers, color chemists, and managers will need, and support, a whole variety of educational, technical, and scientific institutions and projects that can germinate future industrial progress. By contrast, Portuguese peasants, vintners, and landlords will need and support none of the above in their simpler economic lives. Moreover, Britain's textile industry demands a textile-machinery industry as well; which, in turn, gives birth to other industries, while Portugal's wine industry will still support only coopers and their barrel making.

The Portuguese in this classic example would therefore be well advised to ignore the theory and impose a stiff textile tariff to keep out British imports, thus allowing a textile industry of their own to grow and survive. Even if the British do not retaliate with a wine tariff of their own, as they may well do, the Portuguese standard of living will immediately drop. Instead of a desirable mix of good native wine and good imported cloth, the Portuguese will have to get by with small quantities of inferior cloth, inefficiently produced against the grain of Portugal's comparative advantage. But in a textile-and-wine world that is the only way for the Portuguese economy and society to develop at all. As it does, moreover, the technologies and institutions they acquire will open new avenues of industrial growth, including some in which Portugal might be less inefficient, or even quite efficient.

Japan was in Portugal's position twice within a century. First when the country was initially opened to foreign trade after the intrusion of Commodore Perry's American fleet and the 1868 revolution. And then again in 1945, when Japan's economy was in ruins, and even its surviving industry was badly outdated after many years of war production (Japan's war had started in 1936, long before Pearl Harbor). The United States was then of course the world's most efficient producer of virtually every industrial product; in some cases – including the first civilian electronics – it was the only producer.

Japan should therefore have been content to produce raw silk, paper lanterns, and the cute mechanical toys in which it still had a comparative advantage, while importing almost all other industrial goods. For very little could be produced efficiently given the state of Japanese industry. But instead of being paralyzed by theory, the Japanese simply ignored it, preferring the development of their economy to efficiency and an immediately better standard of living. High tariffs, tight quotas, and outright import prohibitions kept out US and other foreign goods to assure well-protected markets for Japan's feeble industries, which were also helped directly with low-interest investment loans, tax exemptions, and plain subsidies.

The Japanese people thus paid twice for industrial development, first by having to buy inferior homemade products at high prices instead of better/cheaper imports; and then because it was their taxes that paid for all the bounty given to industry. As consumers, and taxpayers, the Japanese were ill-treated. But as producers, their lives prospered and grew, with ever-wider opportunities both in rebuilt industries and in brand-new industries, as well as in the service superstructure that goes with them: banking, insurance, financial services, advertising, and more. They had to wait until the 1980s for any rapid rise in their standard of living, but the dignity of employment was assured to virtually all almost from the start, along with the increasing satisfactions of personal and national achievement.

To be sure, even free-trade theory recognizes an exception: it allows that "infant" industries (or war-ravaged industries) can be usefully protected for a short while, until they can stand on their own feet. But the politicians, academic economists, government officials, and journalists who "believe" in free trade are not really guided by the theory. They are, after all, believers in an ideology, not thinkers. Thus they fail to recognize the real significance of the tidal waves of rapid technological development that can now totally outdate products in a few years (remember "eight-track tapes"?) and entire industries in a few more (e.g., batch-production steel). That significance is simply this: nowadays a perfectly grown-up industry can become a helpless infant at any time. Aside from the world leader of the moment in any particular industry or product line, all other countries might be left only with infants in need of protection.

If help is refused ... technologically overtaken industries must die, as the US consumer electronics industry has died, instead of recovering to compete again – as they might, if their markets were protected for a while. Hence the theory is itself invalid for all practical purposes, because the one allowed exception for "infant" industries happens to apply precisely to the fastest growing, most creative, and most promising industries. In other words, the exception is now more important than the rule.

There are other things, too, that the politicians, academic economists, government officials, and journalists who believe in free trade fail to recognize. One is that today's economic world is far removed from Main Street, USA, with its strictly private business, all equally subject to the rule of balance sheets, profit and loss accounts, and possible bankruptcy. National bureaucracies and governments not only regulate and tax but also manage state-owned companies or entire industries in some countries, and actively help private business in many more countries. They keep out foreign competition by means fair or foul, they provide market information (and sometimes the fruits of industrial espionage), they give research and development grants, they issue loan guarantees for corporations in trouble, they award extra-profitable contracts to strengthen favored "chosen instruments," they co-invest in plant and machinery, or simply hand out money. Only in freewheeling Hong Kong and Macao is the idealized state of "free

enterprise" closely approached. Elsewhere, including the United States (remember the Lockheed bailout – one of many – and the Chrysler loan guarantee?), it is rather "state-assisted enterprise" that should be celebrated by euphoric after-dinner speakers.

Of course these things are known to all. But free-trade ideology, like all ideologies, has a curious effect: it has a way of creating confusion in the mind of believers between what ought to be and what is. They know that the world is far different from Main Street, USA, yet they do not truly accept that reality in their minds. When it comes to the specific cases, they invariably oppose protectionism of any sort for any reason at any time – as if by keeping faith with the ideology its assumptions would miraculously become true. Even when the strongest case is proven, they take refuge in the claim that trade barriers would inevitably end up protecting only sloth and inefficiency. Yet there is no reason why purely domestic competition should not suffice to keep businesses on their toes in any large economy, with different competitors in each industry. There was certainly no sign of lethargy or corporate self-indulgence in Japan, through decades of protectionism.

There is one final parallel with Marxism-Leninism: the true believers in free trade are ready to sacrifice hugely for the sake of the splendid promise of their ideal – jobs, businesses, entire industries abandoned to foreign competition. Sometimes there is no alternative, as with industries based on cheap labor (e.g., hand-printed cotton goods). But as often, temporary protection is just what the (Japanese) doctor would have ordered, to allow overtaken industries to recover and flourish again. Instead, they are irrevocably abandoned, sacrificed on the altar of theoretical beliefs. Ideologues can be expected to do that of course – but in this case they account for a large proportion of all American politicians, academic experts, government officials, journalists, and opinion leaders.

Realities of the Global Market: Airbus Industrie

As it happens, the world's airliner industry provides the most extreme example of the divergence between the truths-in-theory of the ideology, and sordid reality. To begin with, the only significant foreign competitor for the two remaining American producers of jet airlines, Boeing and McDonnell-Douglas (MacDac), is the European consortium Airbus Industrie. Ostensibly a commercial company like any other, Airbus is in fact heavily subsidized and financially guaranteed by the governments of France, Germany, Britain, and Spain. Each has its own favored aerospace company – its "chosen instrument" – and they form the Airbus consortium among them: France's Aerospatiale and Deutsche Aerospace have a 37.9% share each, British Aerospace has 20%, and Spain's CASA has 4.2%. These companies are neither small nor weak. In combination, including their military divisions, they employed some 550,200 people in 1990, as opposed to 161,700 for Boeing and 121,190 for McDonnell-Douglas, and in that year their total sales

amounted to \$84.8 billion, almost twice as much as McDonnell – Douglas and Boeing combined. But what makes Airbus Industrie so formidable is the government support it receives.

It now costs billions of dollars to design and engineer in detail a new airliner – money that Boeing and MacDac must borrow up front, and pay interest on every day during the several years that pass from the start of design to the first sale of a completed aircraft. That, obviously, is a very heavy burden, especially with the high long-term US interest rates caused by the American refusal to save, and the heavy government borrowing needed to cover huge federal deficits. But Airbus Industrie is virtually exempt from such financial agonies: its first airliner, the A300, was launched in May 1969 with \$800 million in government subsidies; the A310 that followed was developed from July 1978 with a \$1 billion subsidy; next the A320 was started in March 1984 with \$2.5 billion; finally the A330 and A340 were launched in June 1987 with \$4.5 billion in government subsidies.

Admittedly these are not outright grants but rather loans from each government to its own "chosen instrument" aerospace company – except that no bank in the world has ever dealt so kindly with a borrower: first, the interest rate is, in effect, zero; second, Airbus Industrie need repay its loans only if it happens to have money to spare. So far, however, the consortium has continued to lose money, even though by 1990 it had delivered more than 700 aircraft to 102 different airlines all over the world. No normal commercial enterprise, not even the very largest of international corporations most heavily shielded by banking support and interlocked shareholdings, could have survived the cumulative losses of Airbus Industrie over the years. There is certainly no prospect that the four sponsoring governments will be repaid: their total subsidies were last calculated at \$26 billion. But profit and loss accounts are for "little people," in the memorable phrase, a category that includes McDonnell-Douglas and even Boeing in this case.

When some European economic experts complained about the huge cost of Airbus to the French, German, British, and Spanish taxpayers, their impertinence was firmly dismissed by Erich Riedl, Germany's aerospace coordinator: "We don't care about criticism from small-minded pencil-pushers."

... In the twenty years from 1971 to 1991, Airbus Industrie increased its share of worldwide airliner market from near zero to 26%. In the process, the American airline industry lost that much in production and sales, mostly overseas sales of course. The lost 26% of airliner sales could have reduced the US trade imbalance (only the chemical industry exports more) and increased the profits of Boeing, McDonnell-Douglas, and all their subcontractors. Those profits, in turn, could have provided more capital for research, development, plant, and equipment. Moreover, Airbus Industrie is still expanding. Its managing director, Jean Pierson, has published the consortium's ambitious goal: "If we make no mistakes, we should achieve a 40% share of the market in the next fifteen years."

If that comes to pass, McDonnell-Douglas is unlikely to survive in the airline business, and Boeing, too, would be much weakened. In any case, tens of thousands of well-paid American industrial workers, scientists, technicians, designers, engineers, managers, and salespeople would lose their jobs in the industry. Further jobs would be lost in great numbers in the many different industries that supply materials, components, and machinery. All the lost jobs would mean as many lives disrupted and most probably diminished; and nationally, there would be a further slide toward a prevalence of low-paid, low-skill service jobs in US economy – not "flipping hamburgers" perhaps, but certainly some ax-airliner builders would end up cleaning and maintaining Airbuses....

Airbus Industrie is by no means a unique case. On the contrary, virtually every promising industrial sector has its own version of Airbus Industrie in one country or in several, whether for computers and data processing software, biotechnology, advanced materials (superconductive, amorphous, or ceramic), satellite launchers, telecommunications, and more. If there is no subsidy for a chosen corporation or consortium as in the Airbus case, then there is a state-funded "national technology program" that serves the same purpose for an entire industry.

Geo-Economics

The broader meaning of this new phenomenon is plain enough. Unlike the handouts given to failing industries, or the payments that powerful farm lobbies can extract from American, European, and Japanese taxpayers, the support of technologically advanced companies or entire industries is an instrument of state power. Thus it is not more and not less than the continuation of the ancient rivalry of the nations by new industrial means. Just as in the past when young men were put in uniform to be marched off in pursuit of schemes of territorial conquest, today taxpayers are persuaded to subsidize schemes of industrial conquest. Instead of fighting each other, France, Germany, and Britain now collaborate to fund Airbus Industrie's offensive against Boeing and McDonnell-Douglas. Instead of measuring progress by how far the fighting front has advanced on the map, it is worldwide market shares for the targeted products that are the goal. (Edward N. Luttwak, *The Endangered American Dream: How to Stop the United States from Becoming a Third-World Country and How to Win the Geo-Economic Struggle for Industrial Supremacy*. New York: Simon & Schuster, 1993, pp. 22-28, 32-33, 34.)

Creation of a New Global Secular Civilization

"The West believes that its destiny is to guide or coerce diverse human cultures into a single global civilization. It cannot tolerate the coexistence in the world of different cultures. The principal reason for this is that the West really is convinced that it has discovered the only model of society which benefits humanity, and

therefore that it has a moral duty to ensure that the whole world adopts that model....

"This acute form of cultural imperialism is reinforced by international business, which considers that it would benefit from the destruction of social diversity and its replacement by a global monoculture hungry for western-type products." (Sir James Goldsmith, *The Trap*, New York: Carroll and Graf Publications, 1994 edition, p. 61.)

Treaty of Maastricht Seeks to Create a Supranational, Centralized, Bureaucratic State

"Maastricht seeks to create a supranational, centralized, bureaucratic state – a homogenized union. It would destroy the pillars on which Europe was built – its nations. It would convert Europe into one multicultural space, in which national identities would be fused and sovereignty abandoned. It would coerce ancient European nations to merge into the ultimate artificial state. As George Orwell remarked, it is characteristic of intellectuals to pass over in incomprehension to the dominant political passion of the age. Today, that passion is the search for national identity. And this is the moment when European ruling elites are seeking to destroy the identity of every European nation....

"The European Union was built in secret: not through carelessness or casualness, but in a deliberately planned and skillfully executed manner. Claude Cheysson, the former French Minister of Foreign Affairs and a member of the European Commission from 1985 to 1989, described the mechanism in an interview in *Le Figaro* on May 1994. He explained proudly that the European Union could only have been constructed in the absence of democracy, and he went on to suggest that the present problems were the result of having mistakenly allowed a public debate on the merits of the Treaty of Maastricht.

"The British newspaper the *Guardian* lodged a case before the European Court of Justice in Luxembourg complaining of the secrecy in which European decisions are taken. Lawyers for the European Council of Ministers responded by stating to the judges that 'there is no principle of community law which gives citizens the right to EU documents'. They went on to make the astounding claim that although heads of government had repeatedly called for more openness in EU affairs, their declarations 'were of an eminently political nature and not binding on the community institutions'. So they asked the judges to ignore the repeated declarations at EU summit meetings in the past two years in favor of greater openness. Statements by the twelve heads of government were no more than 'policy orientations' and had no binding effect.

"This belief that the nomenclature knows best and that the public is no more than a hindrance explains why there now exists a profound and dangerous divorce between European societies and their governing elites....

"Quietly and progressively, power was transferred to the seventeen unelected technocrats who were the members of the European Commission. Originally, power had been entrusted to the Council of Ministers, which consists of the elected national heads of state or their representatives. As they were more interested in national policies than in the creation of Europe, bit by bit the technocrats of the Commission were allowed to take over executive power. They have been granted the monopoly right to propose new initiatives for the development of the European Union. Their ambition is not modest. Jacques Delors, the outgoing president of the Commission, declared that in future 80 percent of all laws governing economic, social and fiscal affairs of each European nation would originate in Brussels and therefore form proposals initiated by the Commission.

"As was certain to be the case, this rush towards a technocratic hypercentralization has created a Europe which is hopelessly weak externally and unable to influence the course of world events. Internally, the power of the technocracy is employed to destroy sovereignty, freedom and self-reliance." (Sir James Goldsmith, *The Trap*, pp.68-70.)

Global Information Warfare in the New World Order

"... [T]he United States is at war, a war that few of us have bothered to notice. The twentieth century information skirmishes, which are the prelude to global Information Warfare, have begun....

"The Cold War is over and has been replaced by economic warfare, a competition between what is shaping up to be three major trading blocks: North America, Europe, and the Asian Pacific Rim. . .

"Information Warfare is an integral component of the new economic and political world order. Economic battles are being fought and will continue to be fought, ultimately affecting every American citizen and company as well as the national security of the United States. As terrorism now invades our shores, we can expect attacks upon not only airliners and water supplies, but upon the money supply, a sure way to strike terror into millions of people with a single keystroke....
"

"Imagine a world where information is the medium of exchange and cash is used only for pedestrian trade. A world where information, not English, German, Japanese, or Russian, is the common language. A world where the power of knowledge and information usurp the strength of military might. A world totally dependent upon new high-tech tools that make information available instantaneously to anyone, anywhere, at any time. A world where he who controls the information controls the people. A world where electronic privacy no longer exists.

"Now imagine a conflict between adversaries in which information is the prize, the spoils of war. A conflict with a winner and a loser. A conflict which turns computers into highly effective offensive weapons. A conflict which defines computers and communications systems as primary targets forced to defend themselves against deadly, invisible bullets and bombs....

"Information Warfare is about money., It's about the acquisition of wealth, and the denial of wealth to competitors. It breeds Information Warriors who battle across the Global Network in a game of cyberrisk.

"Information Warfare is about power. He who controls the information controls the money.

"Information Warfare is about fear. He who controls the information can instill fear in those who want to keep their secrets a secret. It's the fear that the Bank of New York felt when it found itself \$23 billion short of cash in only one day.

"Information Warfare is about arrogance, the arrogance that comes from the belief that one is committing the perfect crime.

"Information Warfare is about politics. When the German government sponsors intelligence agency hacking against U. S. computers, the concept of *ally* needs to be redefined.... "

"Information Warfare is about the control of information. As a society we maintain less and less control as Cyberspace expands and electronic anarchy reigns....

"Much of the New World Order is defined by the efforts by the Second and Third World countries to graduate to First World status. In the most broad terms, that means money, and of course, the money is controlled by a select few. .

"As the world evolves into the New World Order, we must expect entirely new challenges....

"Since 1986 the original twelve members of the European Economic Community (EEC) have been designing a New Europe, one in which trade barriers are removed between all countries, one in which an eventual monetary union will tie independent currencies together, thus lessening the disparity of its members. Western Europe's \$8 trillion GNP and its 340 million people, combined with those from Middle and Eastern Europe, create a single market in excess of 850 million people and an estimated \$12-14 trillion. On the economic front, America will be dwarfed.

"The New Europe is a formidable force that will have profound effects on the U.S. economy, for the rules that the Europeans and the Japanese play by aren't the same ones we use. . .

"Information is what makes both the Old and the New World Order go around. .

"The world's gross national product is about \$27 trillion with the New World Order's bipolar economic superpowers controlling the vast amount of the planet's wealth. The United States generates about twenty-three percent, and Europe about forty percent, depending upon whom you include. A disproportionately low twenty-five percent of the population controls nearly ninety percent of the world's goods, services, and money....

"The \$27 trillion planetary output, though, is dwarfed by a parallel economic system that is only two decades old. Behind the \$27 trillion 'real' economy of goods and services is a hidden, mysterious 'financial' economy that rewards speculation, legalized international hedging and fudging for hundredths of a percentage point gain or loss. The financial economy is between twenty and fifty times as large as the real economy: one quadrillion dollars.

"The hidden financial world of options, futures, and global hedges is a legal and erudite form of gambling. The world's financial economy, in excess of \$1 quadrillion (\$ 1,000 trillion), dwarfs the power of any single country or sphere of influence, and, with the proper incentives, could bankrupt any nation on Earth. Speculation breeds volatility. For every real dollar, speculators manipulate the markets with twenty to fifty financial dollars....

". . . The New York brokerage and trading houses alone pass \$1.9 trillion over their computer networks every single day. That's almost \$800 trillion per year, which doesn't include Tokyo, London, Frankfurt, Hong Kong, or other international trading centers. One New York brokerage house, Solomon Brothers, trades \$2 trillion every year. The Federal Reserve System transfers \$1 trillion every day over the Fed Wire. The world's other networks move another \$2 trillion -plus every day.

"Incredibly vast sums of money, most of it real only in Cyberspace, offer the owners control and power over the destiny of companies, countries, and people.... (Winn Schwartau, *Information Warfare*, New York: Thunder's Mouth Press, 1994, pp. 11, 12, 13, 14, 15, 16, 36, 38-39, 44, 61-64.)

A New Civilization is Emerging

"A new civilization is emerging in our lives, and blind men everywhere are trying to suppress it. This new civilization brings with it new family styles;

changed ways of working, loving, and living; a new economy; new political conflicts; and beyond all this an altered consciousness as well.

"Humanity faces a quantum leap forward. It faces the deepest social upheaval and creative restructuring of all time. Without clearly recognizing it, we are engaged in building a remarkable new civilization from the ground up. This is the meaning of the Third Wave. (Alvin & Heidi Toffler, *Creating a New Civilization: The Politics of the Third Wave*, Washington, D.C.: Progress & Freedom Foundation, 1994, p. 1.)

Free Trade is the Economic Theology of the American Elite and Multinational Corporations

Ever since the Second World War, economists and the American government have trumpeted the benefits of free trade. Various administrations, Democratic as well as Republican, have championed laissez-faire in foreign commerce. Slowly but steadily, most trade barriers have been eliminated, and today American's dependence on international commerce, particularly its addition to imports, is the highest ever in its history.

By now the idea of free trade has acquired a myth of its own. To be for laissez-faire is to be for progress, prosperity, and peace; to be against it is to invite the wrath of economists, Wall Street, political pundits, and much of the press. Baby boomers of the 1950s grew up with the gospel of free trade; in fact, the idea is now embraced as economic theology around the world....

Economists generally sing the melodies of laissez-faire but slight its costs in terms of layoffs, lost wages, and environmental destruction. In the pages that follow I will show you that every country except America has benefits from the policy of free trade. Laissez-faire has wrecked U. S. industry and shattered the American dream....

The experience of most countries show that prosperity lies in the expansion of manufacturing rather than agriculture and services. This is because manufacturing has much higher worker productivity than other sectors, so that its salaries tend to be 150 to 200 percent of those in other areas. When freer trade promotes manufacturing, it raises overall productivity as well as the general standard of living; but when it fosters services at the expense of manufacturing, productivity growth as well as real earnings decline.

Manufacturing, not trade, is the main source of prosperity. And history, recent and past, confirms this resoundingly. It is no secret that ever since the 1970s, services have far outpaced manufacturing in the United States. As a result, the entire economic landscape has been transformed. Trade liberalization turns out to be the main cause of this transformation, which is unprecedented in the American chronicle.

Today only 17 percent of the labor force is employed in the industrial sector, the rest being in services and agriculture. Therefore, it is not surprising that inflation-adjusted wages have declined by 19 percent since 1972, while the volume of trade has doubled and tariffs have plummeted to 5 percent. In retailing, real after-tax earnings now match those of the Great Depression.

Since the 1970s, cheap imports produced by foreign workers, sometimes laboring on pennies per day, have destroyed and even exterminated industry after industry in the United States, while the administrators, both Democrats and Republicans, have stood idly by. It's an open secret that local firms producing steel, cameras, TVs, VCRs, textiles, and shoes, among many others, have fallen prey to imports from Japan, Taiwan, Korea, Singapore, China, and Hong Kong. And despite the anguish of the American poor and unemployed, the flood of imports continues at an alarming pace.

If this trend persists, then by the end of this decade, the American auto industry would be all but extinct; and computers, machine tools, and pharmaceuticals could suffer the same fate. The reason is that when foreign labor is so cheap, no matter how superior American technology is, U. S. industries just can't compete with foreign products. Free trade has done to the United States what Hitler and Imperial Japan could not do during the war.

Despite such clear-cut evidence, why is free trade so popular and protectionism in disrepute? The United States is now in the midst of the longest recession since the war. Yet protectionist forces, which normally thrive in bad times, have found little political or academic support. In spite of so much industrial devastation, why have protectionists so little to show in terms of legislation that would impede the torrent of imports? It's because protectionists have not offered a coherent case. They have ... failed to document the destructive impact of surging imports on the U.S. economy, while free traders have had a great propaganda lobby supported by the multinational firms and American elites

The benefits of protectionism today are not limited to the living standard. Few people realize that international trade is the worst polluter among all economic activities; in fact, trade uses more than twice the amount of energy utilized by equivalent local production. Foreign trade ravages the environment far more than manufacturing, agriculture, and services. . . .

America today stands at a crossroads. The passionate debate stirred up by NAFTA suggests that the proposed accord could make or break the system. With our myriad socioeconomic ills, I feel strongly that the free trade agreement could be the straw that breaks America's back. . . .

The facts are clear, the evidence overwhelming: the great American dream of increased prosperity for each generation lies shattered. In fact, there is even talk of the country sinking into a Third World-type hole, and a vicious circle of poverty.

With the media, politicians, and pundits all in confusion, there is a frantic search for diagnosis and cure. The irony of it all is that as the debate on NAFTA grows, few realize that the real cause of America's unprecedented economic debacle is the policy of free trade. We are about to sink deeper into what is already the quicksand of American industry and earnings. . . .

In the aftermath of the Second World War various U. S. administrations went after trade liberalization with gusto. In 1947, after many rounds of talks, the United States helped forge a global agreement called GATT, or the General Agreement on Tariffs and Trade, whose purpose was to reduce or eliminate barriers that countries have erected against the free international flow of goods and services.

A tariff is a tax imposed on foreign products at the port of entry. The tax raises the prices of foreign goods, discouraging their consumption and import. As a result of GATT large cuts in U. S. tariffs were made in 1947 and 1948, and the average duty fell from 27 percent to 15 percent. New cuts were made following another global agreement called the Kennedy Round, in which tariffs on manufactures were lowered by one third. Another cut occurred after the so-called Tokyo Round of trade negotiations, completed in 1979. Today the average American tariff rate stands at 5 percent.

Such a low tariff rate is unprecedented in U. S. history. Over the past two centuries, tariffs were rarely below 30 percent....

From all this we conclude that in 1973, for the first time ever in the three-century history, the United States became a free trade economy, and has remained so ever since. Thus 1973 was also a watershed year as far as America's foreign commerce is concerned. It is a mere coincidence that oil prices also soared at the time, masking the true significance of that year. Energy prices had surged many times before, but never before had America been a laissez-faire economy. Until 1973 either tariffs were exorbitant or trade was too small to be relevant to the U. S. economy.

Thus, what makes 1973 so unique in the American chronicle is the fundamental shift from a closed stance to an open, free trade state, which forever altered the nature of the economy. Such a shift is monumental, comparable to an earthquake of 8.0 on the Richter scale. It cannot but cause loud reverberations, with echoes in every nook and cranny of society.

What caused this monumental transformation? In the aftermath of the Second World War, the United States emerged as the predominant economy in the world. While England, France Italy, Germany, and Japan lay in a shambles, American manufacturing was at its zenith. Confident that the United States could outcompete all others, the federal government vigorously pursued laissez-faire around the globe. It also offered the Marshall Plan to rebuild Western Europe and assisted

Japan through liberal exports of technology. By every possible measure, America's economic might was unchallenged for two decades after 1945.

However, by the late 1960s, it was evident that the United States had been overly successful in its zeal to rebuild the economies of its trading partners. Both Europe and Japan had emerged to challenge America's dominance in manufacturing. The once formidable U. S. industrial pillars were beginning to crumble. The foreign onslaught was first felt in low-tech industries such as footwear and textiles; then came the turn of radios, televisions, automobiles, motorcycles, refrigerators, air conditioners, generators, turbines, cameras, and numerous other manufactured products in which the Americans had held a near monopoly for two decades.

In the early 1960s, America's retreat was slow, barely perceptible. American workers and businessmen remained smug, complacent, and blind to the emerging challenge that would nearly rout them in the next decade. While the Europeans and Japanese were studying, saving, and investing their way out of the ruins, Americans were becoming lethargic, litigious, and extravagant.... The world conserved and harnessed its energy, while America wasted it with abandon.

Europe and Japan, through grit and perseverance, increasingly exported manufactures to the United States. Sony, Honda, Mercedes-Benz, and Chanel became household names, perhaps more so than RCA, Zenith, General Motors – the American industrial giants that now seem as endangered as pandas. Apparently, the import surge in 1973 was so great that it catapulted the United States into an open economy. As tariffs had already tumbled, the country thus became an open economy with free trade. Since 1973, America's trade dependence, particularly its import addiction, has continued to rise with no end in sight. At present, the average tariff rate is 5 percent, not too far below the 7 percent rate of 1973, and the trade ratio, at 25 percent, is at its all-time high....

Why did the U.S. industrial base erode? The deindustrialization hypothesis blames it mainly on the multinational firms that relocated their facilities to the low-wage countries of Asia. This is a fact. Yet the multinational firms would not have rushed abroad, if they weren't free to import their goods back into the United States. It's the steady drop in American tariffs that encouraged them to invest heavily in Asia. In addition, U. S. corporations encountered faced intense international competition, forcing their emigration to low-wage countries.

If the United States had maintained its historical policy of being a nearly closed economy, there would have been no erosion of U. S. industry. America's laissez-faire policy enabled U. S. multinationals to relocate their factories abroad, produce their goods in low-wage nations, and then freely import those goods back into the United States. In August 1992, Smith-Corona announced the relocation of its typewriter-manufacturing plant to Tijuana, Mexico, and the lay-off of 875 U. S.

workers in the process. Suppose the company were required to pay a hefty duty on typewriter imports; would it move its factory to Mexico? Of course not. The real cause of such plant relocation and the resulting decline in real wages is free trade, nothing else.

As a process explaining the steady erosion of the industrial base, the deindustrialization hypothesis is immaculate. I would, however, restate the thesis in this way. After the United States became a free trade economy in 1973, the rate of manufacturing profit fell to a new low because the industrial relative price began to fall at a higher rate. U. S. corporations responded by accelerating their emigration abroad and by cutting labor demand at the plants remaining at home. This in turn caused a massive loss of high-paying jobs, as many as 38 million by one estimate. Most of the fired workers found employment in low-paying service industries, while a few entered the newly expanding high-tech services, where wages were soaring. To this add the restructuring of industry and the resulting job losses caused by the merger mania of the 1980s, and you have a complete explanation of the systematic decline in the American living standard.

The government neglect of merger mania reveals the total bankruptcy of official economic policy. Trade liberalization is supposed to generate competition between home and foreign producers; but mergers restrict domestic competition as one giant firm gobbles up others. In its wisdom, the government in the 1980s decided that foreign competition was preferable to domestic competition, that foreign predators were more trustworthy than local rivals.

What a bizarre idea! It should be the other way around. Competition is vital for efficiency. It is the cradle of giant productivity gains – but not when it comes from abroad. Given the choice, domestic competition is far better than foreign competition. Government policy was thus, at best, contradictory; at worst, self-destructive.... (Ravi Batra, *The Myth of Free Trade*, New York, N.Y.: Simon & Schuster, 1994, pp. 1, 3-5, 6, 35-36, 41-43, 77-78.)

Nation-States and Political Sovereignty Are No Longer Relevant in the Emerging World Order

"...The forces now at work have raised troubling questions about the relevance – and effectiveness – of nation states as meaningful aggregates in terms of which to think about, much less manage, economic activity. Once-powerful examples of such nation states have come apart at the seams. (At a conference of leading CEOs held in Stuttgart back in 1990, I predicted that the 'global logic' unleashed by these forces would lead to the collapse of the Soviet Union. At the time, no one else in the room believed me.) And many of the core values supporting a world order based on discrete, independent nation states – liberal democracy as practiced in the West, for instance, and even the very notion of political sovereignty itself – have shown themselves in serious need of redefinition or, perhaps, replacement. Indeed,

as the 21st century approaches and as what I call the four 'I's'-industry, investment, individuals, and information – flow relatively unimpeded across national borders, the building-block concepts appropriate to a 19th-century, closed-country model of the world no longer hold....

"...Are these nation states – notwithstanding the obvious and important role they play in world affairs – really the primary actors in today's global economy? Do they provide the best window on that economy? Do they provide the best port of access to it? In a world where economic borders are progressively disappearing, are their arbitrary, historically accidental boundaries genuinely meaningful in economic terms? And if now, what kinds of boundaries do make sense? In other words, exactly what, at bottom, are the natural business units – the sufficient, correctly-sized and scaled aggregations of people and activities – through which to tap into that economy?

"One way to answer these questions is to observe the flows of what I call the 4 'I's' that define it. First, the capital markets in most developed countries are flush with excess cash for investment. Japan, for example, has the equivalent of US \$10 trillion stored away. Even where a country itself hovers close to bankruptcy, there is often a huge accumulation of money in pension funds and life insurance programs. The problem is that suitable – and suitably large – investment opportunities are not often available in the same geographies where this money sits. As a result, the capital markets have developed a wide variety of mechanisms to transfer it across national borders. Today, nearly 10 percent of U. S. pension funds is invested in Asia. Ten years ago, that degree of participation in Asian markets would have been unthinkable.

"Thus, investment – the first 'I' – is no longer geographically constrained. Now, wherever you sit in the world, if the opportunity is attractive, the money will come in. And it will be, for the most part, 'private' money. Again, ten years ago, the flow of cross-border funds was primarily from government to government or from multilateral lending agency to government. There was a capital city and an army of public bureaucrats on at least one end of the transaction. That is no longer the case. Because most of the money now moving across borders is private, governments do not have to be involved at either end. All that matters is the quality of the investment opportunity. The money will go where the good opportunities are.

"...The strategies of modern multinational corporations are no longer shaped and conditioned by reasons of state but, rather, by the desire – and the need – to serve attractive markets wherever they exist and to tap attractive pools of resources wherever they sit.

"...If the unfettered movement of these I's makes the middleman role of nation states obsolete, the qualifications needed to sit at the global table and pull global solutions begin to correspond not to the artificial political borders of countries, but

to the more focused geographical units – Hong Kong, for example, and the adjacent stretch of southern China, or the Kansai region around Osaka, or Catalonia – where real work gets done and real markets flourish. I call these units 'region states.' They may lie entirely within or across the borders of a nation state. This does not matter. It is the irrelevant result of historical accident. What defines them is not the location of their political borders but the fact that they are the right size and scale to be the true, natural business units in today's global economy. Theirs are the borders – and the connections – that matter in a borderless world.

"...I will show why traditional nation states have become unnatural, even impossible, business units in a global economy. I will also show why region states are, in fact, so effective as ports of entry to it...

"...Public debate may still be hostage to the outdated vocabulary of political borders, but the daily realities facing most people in the developed and developing worlds – both as citizens and as consumers – speak a vastly different idiom. Theirs is the language of an increasingly borderless economy, a true global marketplace. But the references we have – the maps and guides – to this new terrain are still largely drawn in political terms. Moreover, as the primary features on this landscape—the traditional nation states – begin to come apart at the seams, the overwhelming temptation is to redraw obsolete, U.N.-style maps to reflect the shifting borders of those states. The temptation is understandable, but the result is pure illusion. No more than the work of early cartographers do these new efforts show the boundaries and linkages that matter in the world now emerging....

"...The glue holding together older constellations of nation-based political interests has visibly begun to wear thin. In economics as in politics, the older patterns of nation-to-nation linkage have begun to lose their dominance. What is emerging in their place, however, is not a set of new channels based on culture instead of nations. Nor is it a simple realignment of previous flows of nation-based trade or investment.

"In my view, what is really at stake is not really which party or policy agenda dominates the apparatus of a nation state's central government. Nor is it the number of new, independent units into which that old center, which has held through the upheavals of industrialization and the agonies of two world wars, is likely to decompose. Nor is it the cultural fault lines along which it is likely to fragment.

"Instead, what we are witnessing is the cumulative effect of fundamental changes in the currents of economic activity around the globe. So powerful have these currents that they have carved out entirely new channels for themselves – channels that owe nothing to the lines of demarcation on traditional political maps. Put simply, in terms of real flows of economic activity, nation states have already lost their role as meaningful units of participation in the global economy of today's borderless world....

"The uncomfortable truth is that, in terms of the global economy, nation states have become little more than bit actors. They may originally have been, in their mercantilist phase, independent, powerfully efficient engines of wealth creation. More recently, however, as the downward-ratcheting logic of electoral politics has placed a death grip on their economies, they have become – first and foremost – remarkably inefficient engines of wealth distribution. Elected political leaders gain and keep power by giving voters what they want, and what they want rarely entails a substantial decrease in the benefits, services, or subsidies handed out by the state....

"Second, and more to the point, the nation state is increasingly a nostalgic fiction. It makes even less sense today, for example, than it did a few years ago to speak of Italy or Russia or China as a single economic unit. Each is a motley combination of territories with vastly different needs and vastly different abilities to contribute....

"...In the borderless economy of an interdependent world, there need not be any such thing as local sovereignty over local difficulties.... " (Kenichi Ohmae, *The End of the Nation State: The Rise of Regional Economies*, New York, Simon and Schuster, 1995, pp. viii, 2-3, 5, 8, 11, 12.)

Internationalists Feel That the United Nation's Charter Is the World's Most Important Political Document

"The Charter of the United Nations was written while the world was still engulfed in war. Their [authors of U.N. Charter] vision produced the world's most important political document.

"The need to work together...guided the visionary men and women who drew up the Charter of the United Nations. What is new today is that the interdependence of nations is wider and deeper.

What is also new is the role of people and the shift of focus from states to people. An aspect of this change is the growth of international civil society.

"These changes call for reforms in the modes of international co-operation – the institutions and processes of global governance.

"The international system that the UN Charter put in place needs to be renewed. The flaws and inadequacies of existing institutions have to be overcome. There is a need to weave a tighter fabric of international norms, expanding the rule of law world-wide and enabling citizens to exert their democratic influence on global processes.

"We also believe the world's arrangements for the conduct of its affairs must be underpinned by certain common values. Ultimately, no organization will work and

no law upheld unless they rest on a foundation made strong by shared values. These values must be informed by a sense of common responsibility for both present and future generations.

"It was Willy Brandt who brought the two of us together as co-chairmen of the Commission on Global Governance....

"The members of the Commission have all served in their personal capacities, and they are from many backgrounds and orientations. Yet, over the last two years together, we have been united by one single desire: to develop a common vision of the way forward for the world in making the transition from the cold war and in managing humanity's journey into the twenty-first century. We believe this report offers such a vision....

"The development of global governance is part of the evolution of human efforts to organize life on the planet, and that process will always be going on. Our work is no more than a transit stop on that journey. We do not presume to offer a blueprint for all time. But we are convinced that it is time for the world to move on from the designs evolved over the centuries and given new form in the establishment of the United Nations nearly fifty years ago. We are in a time that demands freshness and innovation in global governance....

"...This is a time for the international community to be bold, to explore new ideas, to develop new visions, and to demonstrate commitment to values in devising new governance arrangements.

"In the final chapter of this report, we draw attention to what has been a preeminent strand in the thinking of the commission: the world's need for enlightened leadership that can inspire people to acknowledge their responsibilities to each other, and to future generations. It has to be leadership that upholds the values we need to live together as neighbors, and to preserve the neighborhood for those who follow us.

"Many pressures bear on political leaders, as they seek both to be effective and to retain support at the national level. Notwithstanding the drawbacks of nationalism, however, the history of even this century encourages us to believe that from the very best of national leaders can come the very best of internationalism. Today, a sense of internationalism has become a necessary ingredient of sound national policies....

"Removed from the sway of empires and a world of victors and vanquished, released from the constraints of the cold war that so cramped the potential of an evolving global system throughout the post-war era, seized of the risk of unsustainable human impacts on nature, mindful of the global implications of human deprivation – the world has no real option but to rise to the challenge of change, in an enlightened and constructive fashion. We call our global neighbors,

in all their diversity, to act together to ensure this – and to act now." (Ingvar Carlsson, Stockholm, Shrdath Ramphal, London, *Our Global Neighborhood*, New York: Oxford University Press, 1995, pp. xiii-xx.)

The Quest for Short Term Financial Gain by an Elite Few

"Governments seem wholly incapable of responding, and public frustration is turning to rage. It is more than a failure of government bureaucracies, however. It is a crisis of governance born of a convergence of ideological, political, and technological forces behind a process of economic globalization that is shifting power away from governments responsible for the public good and toward a handful of corporations and financial institutions driven by a single imperative – the quest for short-term financial gain. This has concentrated massive economic and political power in the hands of an elite few whose absolute share of the products of a declining pool of natural wealth continues to increase at a substantial rate – thus reassuring them that the system is working perfectly well.

"Those who bear the costs of the system's dysfunctions have been stripped of decision-making power and are held in a state of confusion regarding the cause of their distress by corporate-dominated media that incessantly bombard them with interpretations of the resulting crisis based on the perceptions of the power holders. An active propaganda machinery controlled by the world's largest corporations constantly reassures us that consumerism is the path to happiness, governmental restraint of market excess is the cause of our distress, and economic globalization is both a historical inevitability and a boon to the human species. In fact, these are all myths propagated to justify profligate greed and mask the extent to which the global transformation of human institutions is a consequence of the sophisticated, well-funded, and intentional interventions of a small elite whose money enables them to live in a world of illusion apart from the rest of humanity.

"These forces have transformed once beneficial corporations and financial institutions into instruments of a market tyranny that is extending its reach across the planet like a cancer, colonizing ever more of the planet's living spaces, destroying livelihoods, displacing people, rendering democratic institutions impotent, and feeding on life in an insatiable quest for money. As our economic system has detached from place and gained greater dominance over our democratic institutions, even the world's most powerful corporations have become captives of the forces of a globalized financial system that has delinked the creation of money from the creation of real wealth and rewards extractive over productive investment. The big winners are the corporate raiders who strip sound companies of their assets for short-term gain and the speculators who capitalize on market volatility to extract a private tax from those who are engaged in productive work and investment.

"Faced with pressures to produce greater short-term returns, the world's largest corporations are downsizing to shed people and functions. They are not, however, becoming less powerful. While tightening their control over markets and technology through mergers, acquisitions, and strategic alliances, they are forcing both subcontractors and local communities into a standards-lowering competition with one another to obtain the market access and jobs that global corporations control. The related market forces are deepening our dependence on socially and environmentally destructive technologies that sacrifice our physical, social, environmental, and mental health to corporate profits.

"The problem is not business or the market per se but a badly corrupted global economic system that is gyrating far beyond human control. The dynamics of this system have become so powerful and perverse that it is becoming increasingly difficult for corporate managers to manage in the public interest, no matter how strong their moral values and commitment.

"Driven by the imperative to replicate money, the system treats people as a source of inefficiency and is rapidly shedding them at all system levels...." (David C. Korten, *When Corporations Rule the World*, West Hartford, Conn., Kumarian Press & San Francisco, Berrett-Koehler Publishers, 1995, pp. 12-13.)

The Institutions of Global Governance

"The last half of the twentieth century...saw the creation of the first consequential institutions of global governance: the United Nations, the International Monetary Fund, the World Bank, and the General Agreement on Tariffs and Trade (GATT)...." (David C. Korten, *When Corporations Rule the World*, pp. 17-18.)

Global Economic Integration Being Implemented by GATT

"On the evening of December 1, 1994, a lame-duck session of the U.S. Senate approved GATT by a margin of seventy-six to twenty-four. A broad coalition of Republican and Democratic senators supported the measure in the face of widespread and growing opposition among those Americans familiar with the agreement and the threat it posed to jobs, the environment, and democracy. The strong and unequivocal backing of the agreement by President Bill Clinton and Vice President Albert Gore Jr. further deepened the chasm between them and their core labor and environmental constituencies.

"C-Span, a cable television news channel, held a telephone call-in session following the vote. Doug Harbrecht, the trade editor of *Business Week*, was the guest resource person. As caller after caller phoned in to express outrage at the politicians who voted for the agreement in support of big-money interests and total disregard of the popular will, Harbrecht commented that the pro-GATT position represented impeccable economics but bad politics. As did many of his colleagues,

Harbrecht failed to discriminate between good economics and politically correct free-market ideology. The global economic integration being implemented through GATT is advancing conditions that are at odds with the most basic principles of market economics and is putting in place an economic system that is designed to self-destruct – at an enormous cost to human societies. This can scarcely be considered the practice of good economics." (David C. Korten, *When Corporations Rule the World*, p. 80.)

The Effort to Dismantle National Economies

"The opportunists and demagogues of corporate libertarianism have linked corporate money and power with populist interests to advance an agenda that results in placing corporate interests above human interests. This contradiction remains unexposed as long as the corporate libertarians are allowed to define the issues as a struggle between tax-and-spend big-government liberals and family-values conservatives fighting for individual freedom and responsibility. In this guise, they have enjoyed great success in attacking social programs for the poor, providing tax breaks for the rich, and giving greater freedom to corporations. The consequence is to shift still more power and wealth to the big and central – the corporate world of the cloud mincers – at the expense of the small and local. Ironically, the cause that many conservative voters believe themselves to be serving is that of reclaiming power for the small and local.

"The terms of the political debate must be redefined to focus clearly on the real issue: the contest for power between the big and central and the small and local – between corporations and ordinary people. The time is ripe for a realignment of political alliances, which is likely to come into full flower only when the true populists realize that their enemy is not only big central government but also the giant corporations that owe no allegiance to place, people, or human interest.

"Economic globalization is the foundation on which the empires of the new corporate colonialism are being built. The corporate libertarians tell us that the process of economic globalization is advancing in response to immutable historical forces and that we have no choice but to adapt and learn to compete with our neighbors. It is a disingenuous claim that belies the well-organized, generously funded, and purposeful efforts by the cloud mincers to dismantle national economies and build the institutions of a global market...." (David C. Korten, *When Corporations Rule the World*, pp. 116-117.)

Managing Economic Interdependence

"In the last fifty years, the structure of global economic governance has been extended, repaired, and adapted in the face of enormous technological, economic, and political change....

"While the world has become much more highly integrated economically, the mechanisms for managing the system in a stable, sustainable way have lagged behind. Today's much higher level of economic integration and resulting interdependence are in part due to improved communications....

"The last two years have seen a veritable explosion of portfolio investment by institutional investors – insurance companies, pension funds, unit trusts – in 'emerging markets' as stock markets become truly global in reach. People can trade in the world's leading currencies twenty-four hours a day and use a growing variety of financial instruments. In the field of finance, national frontiers have little meaning; 'the end of geography' is approaching.

"That all this global economic integration has come to pass is in part a tribute to the relative order and stability of post-war economic governance, as well as to new technologies. Enormous opportunities are being created for societies and individuals to advance. But there are also imbalances and risks.

"As economies become more interdependent, it is not only the opportunity for wealth creation that is multiplied, but also the opportunity for destabilizing shocks to be transmitted from one country to another. International co-operation has forestalled or mitigated some shocks (such as action taken after the 1987 stock market crash), but others (the debt crisis of the 1980s, for instance) have been allowed to gather momentum and inflict economic damage and social pain. No satisfactory mechanism exists to anticipate or respond promptly to future global shocks. The International Monetary Fund (IMF), which should be playing a major role in countering destabilizing shocks, is constrained by limited resources." (*Our Global Neighborhood*, Report of the Commission on Global Governance, New York: Oxford University Press, 1995, pp. 135-137.)

A System of Global Governance It is Being Put in Place

"...The Bank for International Settlements (BIS)...provides an underpinning of cooperative supervision. In these quiet, unspectacular ways, a system of global governance is being put in place, albeit on a piecemeal basis." (*Our Global Neighborhood*, Report of the Commission on Global Governance, p. 152.)

G-7 Leaders Control the World Economy

"The Group of Seven [Elite in Canada, United States, England, Germany, France, Italy and Japan] is the nearest the world comes to having an apex body concerned with the global economy." (*Our Global Neighborhood*, p. 154.)

The Evolution of the World Trade Organization

"The World Trade Organization has had a long gestation. An International Trade Organization was first proposed in the US House of Representatives by

Cordell Hull during World War I. The idea was advanced at the World Economic Conference in 1927 and at the Seventh International Conference of American States in Montevideo in 1933.

"In the 1941 Atlantic Charter, President Roosevelt and Prime Minister Churchill proposed a new initiative that would further the access of 'all states, great or small, victor or vanquished,...to the trade and raw materials of the world which are needed for their prosperity'. The first meeting of ECOSOC in 1946 called for a conference on Trade and Employment, and the preparatory committee for that recognized the suggested charter for an International Trade Organization.

"The Havana Conference concluded in 1948 with an agreement between fifty-three countries. The Havana Charter subsumed the General Agreement on Tariffs and Trade signed in October 1947 (which extensively cut trade barriers and discrimination but also dealt with employment development, restrictive barriers, and commodity agreements), and established an International Trade Organization. But the Charter lapsed when the United States failed to ratify it.

"At the conclusion of the Uruguay Round of GATT in 1993, and then finally in Marrakesh in April 1994, the community of nations agreed to establish a World Trade Organization, entering into force on 1 January 1995, to implement the Uruguay Round, provide a forum for negotiations, administer the new mechanisms for dispute settlement and trade policy review, and coordinate with the IMF and the World Bank for greater coherence in global economic policy-making. (*Our Global Neighborhood*, p. 168.)

IMF and IBRD Oversee Worldwide Economic Cooperation

"Fifty years ago, the establishment of the Bretton Woods System created rules for exchange rates and payments, along with two new institutions – the IMF and the World Bank – to oversee economic co-operation." (*Our Global Neighborhood*, p. 179.)

BIS Supervises Global Banking

"Global banking supervision is currently the responsibility of central bankers meeting under the auspices of the Bank for International Settlements in Basle. Their efforts to strengthen the liquidity of banks around the world through capital adequacy ratios have had a far-reaching effect on banking behavior. (*Our Global Neighborhood*, p. 183.)

The IMF Should Manage the Economies of the Nation-States

"...The Fund should play a more active and high-profile role in the surveillance of policy in major economies, including regular, detailed peer reviews of macro-economic policies by members of the international community, both industrial and

developing, although surveillance is already a part of the Fund's mandate, the asymmetrical treatment of borrowing countries is a deep-rooted problem. It can be addressed in part by giving the IMF more effective say in the management of major economies, which would occur if there were at global the same kind of commitment to policy convergence as exists within the EU." (*Our Global Neighborhood*, p. 186.)

A New World It is Taking Shape

"The Commission's terms of reference, adopted at its third meeting in February 1993, are as follows:

"The Commission on Global Governance has been established at a time of profound, rapid and pervasive change in the international system – a time of uncertainty, challenge and opportunity.

"Freed from East-West tensions, the world's nations have more favorable conditions for working together to build a better world for all. The need for cooperation among them has also increased. They have become more interdependent in many respects. New problems have appeared that call for collective action. Global society faces the forces of both integration and division.

"These trends pose fresh challenges to the existing structures of international cooperation. It is therefore necessary to reassess their capacity and the values and concepts that underlie them. It is time to review the arrangements for the governance of our global society.

"Five decades after World War II and in the aftermath of the Cold War, a new world is taking shape. It could give new meaning to the common rights and responsibilities of nations, peoples and individuals. It could bring greater peace, freedom and prosperity. The Commission has been established to contribute to the emergence of such a global order....

"Despite greatly expanded international cooperation, global and regional institutions have not been able to keep pace with the challenges of increasing interdependence. At all levels, there is a gap between the demands of individuals, peoples and nations and the capacity of the system to meet their needs. In a world turning into a global village, the rights and responsibilities of its different actors must be redefined – and respected – as we move towards a new global democracy.

"The Commission's basic aim is to contribute to the improvement of global governance. It will analyze the main forces of global change, examine the major issues facing the world community, assess the adequacy of global institutional arrangements and suggest how they should be reformed or strengthened.

"The Commission will be able to draw on the work of the previous independent commissions chaired by Willy Brandt, Olof Palme, Sadruddin Aga Khan and Hassan bin Talal, Gro Harlem Brundtland, and Julius Nyerere. These contributed to a better understanding of policies and measures necessary to address key issues in important fields: North-South relations, security and disarmament, humanitarian questions, environment and development, and the progress of the developing countries.

"The Commission does not have to go over the same ground, but will examine their proposals for continuing relevance and consider how their acceptability may be enhanced. It will explore what factors may have caused past efforts to improve global governance to fail – and what conditions helped them succeed. The Commission will suggest how global, regional and national institutions should be developed to better support cooperation in today's world.

"The principal challenge will be mobilize political will for multilateral action. Attitudes must be fostered that enable enduring collaborative solutions to global problems to be put into effect. The political and economic arguments for action in the common good need to be well marshalled. It will be the Commission's task to articulate a vision of global cooperation that may inspire nations – leaders and people – to intensify their collective endeavors....

"...The Commission will need to examine what the world community may set down as the limits of permissible behavior in a range of areas, and consider mechanisms – in the context of a future regime of international law – to encourage and, if necessary, enforce compliance with these norms.

"The values upheld by the international community must be reinforced by the regulatory framework of the global rule of law. As sovereign states remain the primary units of the international system, the changing nature of state sovereignty and the relationship between national autonomy and international responsibility will be germane to the work of the Commission.

"Together with the worldwide movement towards participatory democracy, there has been greater attention to the rights of individuals and minorities, and to the role of civil society and its voluntary organizations in advancing the people's interest....

"The economic turbulence of recent times calls for renewed efforts to improve coordination in policy in the interests of achieving more stable conditions for investment and growth worldwide. There is also a need for nations to ensure that progress towards multilateral free trade is maintained. These issues will receive the Commission's attention....

"Another important concern will be the environment, with its close links to development and population growth. Both affluence and poverty contribute to

environmental stress, and so does population pressure which often accompanies poverty. Grave environmental problems beyond national remedy, such as greenhouse warming, ozone depletion and, in some cases, natural disasters, have linked the fate of nations more closely together. They call for cooperative strategies based on the principle of equitably shared responsibility. Such strategies must be responsive to a common danger and be guided by concern for the interests of future generations, in order to promote sustainable development on a global basis.

"The Commission will consider how the limited progress made at the Earth Summit of June 1992 can be consolidated and extended, and how recognition of the interdependence of the human family, signalled by ecological dangers, can be widened so as to evoke greater international support for sustainable development.

"An extensive system of international cooperation has been built up over the past fifty years. With the United Nations at its center, the system has an array of important organizations.

"However, these institutions of global governance – mainly created for a much less complex world with far fewer nations – fall short of today's demands. In many cases, current arrangements inhibit the development of an improved system of global security and the advancement of the human condition. A key objective of the Commission will be to propose how an adequate international institutional framework can be achieved." (Our Global Neighborhood, pp. 366-370.)

The Emerging Global Order is Being Spearheaded By a Few Hundred Corporate Giants

"The emerging global order is spearheaded by a few hundred corporate giants, many of them bigger than most sovereign nations. Ford's economy is larger than Saudi Arabia's and Norway's. Philip Morris's annual sales exceed New Zealand's gross domestic product. The multinational corporation of twenty years ago carried on separate operations in many different countries and tailored its operations to local conditions. In the 1990s large business enterprises, even some smaller ones, have the technological means and strategic vision to burst old limits – of time, space, national boundaries, language, custom, and ideology. By acquiring earth-spanning technologies, by developing products that can be produced anywhere and sold everywhere, by spreading channels of communication that can penetrate any village or neighborhood, these institutions we normally think of as economic rather than political, private rather than public, are becoming the world empires of the twenty-first century. The architects and managers of these space-age business enterprises understand that the balance of power in world politics has shifted in recent years from territorially bound governments to companies that can roam the world. As the hopes and pretensions of government shrink almost everywhere, these imperial corporations are occupying public space and exerting a more

profound influence over the lives of every larger numbers of people...." (Richard J. Barnet & John Cavanagh, *Global Dreams: Imperial Corporations and the New World Order*, New York: Touchstone, 1995, p. 14.)

The Four Intersecting Webs of the New World Economy

"A relatively few companies with worldwide connections dominate the four intersecting webs of global commercial activity on which the new world economy largely rests: the Global Cultural Bazaar; the Global Shopping Mall; the Global Workplace; and the Global Financial Network.

"These worldwide webs of economic activity have already achieved a degree of global integration never before achieved by any world empire or nation-state. The driving force behind each of them can be traced to the same few hundred corporate giants with headquarters in the United States, Japan, Germany, France, Switzerland, the Netherlands, and the United Kingdom. The combined assets of the top 300 firms now make up roughly a quarter of the productive assets of the world.

"The Global Cultural Bazaar is the newest of global webs, and the most nearly universal in its reach. Films, television, radio, music, magazines, T-shirts, games, toys, and theme parks are the media for disseminating global images and spreading global dreams....

"Even in culturally conservative societies in what we still call the Third World the dinner hour is falling victim to television.... As in the United States, Europe, and Japan, centuries-old ways of life are disappearing under the spell of advanced communication technology...

"The Global Shopping Mall is a planetary supermarket with a dazzling spread of things to eat, drink, wear and enjoy.... Dreams of affluent living are communicated to the farthest reaches of the globe, but only a minority of the people in the world can afford to shop at the Mall. Of the 5.4 billion people on earth, almost 3.6 billion have neither cash nor credit to buy much of anything. A majority of people on the planet are at most window-shoppers....

"The Global Workplace is a network of factories, workshops, law offices, hospitals, restaurants, and all sorts of other places where goods are produced, information is processed, and services of every description are rendered....

"The Global Financial Network is a constantly changing maze of currency transactions, global securities, MasterCard, euroyen, swaps, ruffs, and an ever more innovative array of speculative devices for repacking and reselling money. This network is much closer to a chain of gambling casinos than to the dull gray banks of yesteryear. Twenty-four hours a day, trillions of dollars flow through the world's major foreign-exchange markets as bits of data traveling at split-second speed. No more than 10 percent of this staggering sum has anything to do with

trade in goods and services. International traffic in money has become and end in itself, a highly profitable game..." (Richard J. Barnet & John Cavanagh, *Global Dreams*, pp. 15-17.)

Global Corporations Are Undermining the National Sovereignty of the Nation-State

"The most disturbing aspect of this [international] system is that the formidable power and mobility of global corporations are undermining the effectiveness of national governments to carry out essential policies on behalf of their people. Leaders of nation-states are losing much of the control over their own territory they once had. More and more, they must conform to the demands of the outside world because the outsiders are already inside the gates. Business enterprises that routinely operate across borders are linking far-flung pieces of territory into a new world economy that bypasses all sorts of established political arrangements and conventions..."

"An extraordinary global machine has been developed to make, sell, and service commodities and to render all manner of services.... The modern nation-state... looks more and more like an institution of a bygone age. In much of Asia, Africa, and Latin America, the state is collapsing under the weight of debt, bloated bureaucracy, and corruption.... [T]he economic health of the United States has become increasingly at the mercy of decisions of foreign corporations, banks, governments, and investors.... [T]he nation-state everywhere faces a crisis of redefinition...." (Richard J. Barnet & John Cavanagh, *Global Dreams*, pp. 19-20.)

World Trade and Investment in the Advanced Countries

"Almost four-fifths of the measured economic activity on earth is still generated by two dozen richer countries: the United States, Canada, Japan, Australia, New Zealand, South Africa, and the Nations of Western Europe. All but a handful of the world's top 200 corporations are based here. Most of the world trade and investment takes place within this collection of nations." (Richard J. Barnet & John Cavanagh, *Global Dreams*, p. 282.)

The Eurodollar Was Invented to Accommodate Communist China

"The concept of Eurodollars – U. S. currency held by banks abroad – was an invention to accommodate the government of communist China. Since the dollar was and remains the world's reserve currency and the primary exchange medium in foreign trade, the Chinese could not do without dollars. Fearing that the Truman administration would seize their assets in the United States, the new Chinese government consolidated its dollar accounts in one U. S. bank and then ordered the funds transferred to a Soviet-owned bank in Paris. Until the 1960s, as Paul Einzig, author of an early study of the Euromarket, has written, 'The Eurodollar market was for years hidden....' Concerned that they would be criticized for being bankers

to the communists or, worse, that loose talk would draw competitors into a profitable business they wanted to keep for themselves, bankers refused to talk about the booming secret money market." (Richard J. Barnet & John Cavanagh, *Global Dreams*, p. 365.)

Citicorp Helps Super-Rich to Remove Over \$100 Billion from Third World Nations

"Thanks to the huge rise in oil prices beginning in 1973, the oil-producing nations, most of them in the Middle East, were sitting on hundreds of billions of dollars, much of which they deposited in U.S. banks. The largest of these deposits were at Citi. [Walter] Wriston [Chairman & CEO] believed that recycling the 'petrodollars' as loans to other governments was surefire way to make big profits. Other governments around the world were forced to borrow large sums to import the expensive oil, or even to stay afloat as prices of everything rose everywhere. As the Citicorp CEO kept repeating until the day he left office, the chances of the bank's losing the money were small. 'Countries don't go broke.'

"All during the 1970s Citi was earning record profits on its loans to foreign governments, quasi-governmental enterprises in Latin America and Asia, and private entrepreneurs. The bank lent several hundred million dollars to the Chilean dictatorship of Augusto Pinochet, and by 1987 Citibank's exposure in Chile was about \$500 million. As with many other loans, a portion of this sum was guaranteed by the U.S. government's Export-Import Bank, in effect by U.S. taxpayers, but most of the debt was not guaranteed other than by the financially shaky sovereign states themselves....

"Now in the mid-1980s history seemed to be repeating itself. During the Wriston era Citicorp had been earning almost half of its profits from its Third World operations. Even more than in the 1920s Citi was the undisputed leader of the herd of banks that had descended on poor countries around the world. But trouble began in the late 1970s. High interest rates, falling prices of minerals and other natural products on which underdeveloped countries depended for export earnings, and a worldwide economic slowdown brought a number of countries to the point where their indebtedness approached or even exceeded their entire gross domestic products, and they were out of foreign exchange. They were, Walter Wriston to the contrary notwithstanding, 'broke,' at least that is what they said and that is how they looked. To the delight of the large cast of characters in the financial world who had felt the sting of a Wriston barb over the years, the philosopher-banker had been exposed, his bank considerably more so.

"To make matters worse for the debtor countries, between 1979 and 1982 well over \$100 billion in capital fled the Third World, and this flight continued throughout the decade. But in the short run this was hardly bad news for Citi. Because it had become a financial supermarket, the bank was able to help people

with money protect themselves from the improvidence of their governments. Even as Citi's loan pushers continued to visit government offices of insolvent countries, Citi's private bankers were arranging for the transfer of billions in personal and corporate funds from the same financial disaster areas to the safety of a Citi account in the United States or elsewhere. While Brazilian, Mexican, and Argentine business and professional people stockpiled dollars in suitcases under the bed to hedge against their own falling currency, Citi, according to the former bank economist James S. Henry, was intent on helping the superrich preserve their assets by getting them out of the country.

"The bank assembled a list of 'global elite' made up of 'the 5000 or so people around the world who are supposed to have individual net worths greater than \$100 million.' American Express was courting the same select group of Paraguayans, Bolivians, and Argentineans by offering its Black Card, 'the ultra VIP credit card that has a credit line of \$500,000 and offers services such as private planes, bodyguards, and access to Fifth Avenue stores in the wee hours of the morning for "solo shopping."' But Citi was the most aggressive facilitator of the exodus of capital from shaky Latin American economies thanks to its worldwide private banking network. 'The problem is not that Latin Americans don't have assets,' a member of the Federal Reserve Board remarked in the mid-1980s. 'They do. The problem is, they're all in Miami.' Henry calculates that in 1984 Mexican funds in U.S. banks exceeded the amount Mexico owed U.S. banks by somewhere between \$40 to \$60 billion.

"As the tumultuous 1970s ended, over forty developing countries including all the major Latin American borrowers, were in arrears on debt-service payments to private banks. Finally, in the summer of 1982, Mexican officials traveled to Washington to announce that they were insolvent, and dozens of other governments declared themselves broke. The lending bonanza was renamed the Third World debt crisis. By 1985 Citibank had \$15 billion in Third World loans on its books, more than \$10 billion of which was owed by five financially strapped Latin American countries with neither the wherewithal to pay it back nor the intention of doing so.... (Richard J. Barnet & John Cavanagh, *Global Dreams*, pp. 368-371.)

Third World Nations Are Yoked with Crushing Debt

"Nevertheless, by the end of the 1980s the Third world debt crisis appeared to be over, at least as far as the banks were concerned. Banks quietly began to swap the debt of various countries at discount rates, and a new profitable global market was created. On a given day in the late 1980s a bank could buy \$100 million in Mexican loans for \$50 million in cash and then trade the Mexican paper for \$60 million in Argentine paper, and so on. Citi and its competitors found that they could swap debt instruments of doubtful value for promising equity investments in Brazil, Chile, Argentina, and other places. Citi became the largest debt-equity

investor, swapping loans for stock in Chilean paper companies, Mexican industrial conglomerates, and Brazilian electronics companies.

"In defusing the debt crisis in this way the foreign banks were able to build up global networks of productive assets. As the ideology of free trade spread across Latin America, spurred by the end of the Cold War, industries that had been off-limits to foreign corporations, such as communications and financial services, could now be bought at bargain prices in exchange for wiping away debts. By 1989 Federal Deposit Insurance Corporation chairman William Seidman was able to report to Congress that the nine banks with the greatest exposure in Third World debt could 'write off 100 percent of their outstanding loans' to the largest debtor countries and 'remain solvent.' However, all the major debtor nations still faced dire economic problems. By the end of the 1980s underdeveloped countries were paying about \$50 billion a year more in debt service to global banks and governments than they were receiving in new loans, a reverse Marshall Plan of sorts.

"The Third World debt crisis was often described in the press as a morality play, a story of greed, corruption, naivete, and unbankerlike behavior. But the drama had a surprise ending. The rashness of the banks and their success in yoking the Third World to a loan of crushing debt did not produce the collapse of the global financial system some pundits had predicted. Walter Wriston, it turned out, was right. The countries all had resources of one sort or another to keep going, the most important of which was the determination of governments in the developed world and of global banks to keep insolvent countries in business. All this helped the debt crisis to disappear from the front pages while the crushing consequences continued to be felt by millions of people squeezed by the austerity programs imposed upon the debtor nations. The main reason people stopped talking about the crisis in the rich countries was that the banks had sold enough of their dubious loans or converted enough of them into long-term bonds or equity investments to appear solvent once again...." (Richard J. Barnett & John Cavanaugh, *Global Dreams*, pp. 372-373.)

U.S. Government Saves Citibank to Prevent a Run on the Bank

"In 1982 Congress had passed a major piece of legislation for the further deregulation of banks and thrifts known as the Garn-St. Germain Act. One of its provisions eliminated banking regulations that had restricted their investment in commercial real estate. Spurred by bullish 1980s talk about how the information revolution would fill towering office buildings all over the country with an ever-expanding supply of lawyers, accountants, brokers, and deal-makers and by generous tax-abatement packages offered by local governments, banks across the country invested more than \$350 billion in real estate. Of all the office space in the United States, 32 percent was built in the 1980s, and much of it still lies empty.

"It was official lore at Citi headquarters that, just as countries never go broke, real-estate values never go down. By 1991 Citi had the largest real-estate portfolio of any U.S. bank, \$13.3 billion, and almost a third of this figure was made up of loans that would almost certainly never be paid back. The failures were there for all to see. In 1987 developers broke ground and erected a gleaming green-glass 42-story tower at 1540 Broadway financed by Citi. The real-estate market in New York City promptly collapsed after the stock-market crash in October of that year and the building remained vacant for years. (This is the building Bertelsmann bought at a great bargain for its U.S. headquarters.) Citi was also overextended in the residential real-estate market. In the boom years the bank had run ads promising to approve loans in fifteen minutes. By September 1990 its defaults on mortgage payments were five times as high as the nationwide delinquency rate, as reported by the Mortgage Bankers Association.

"[John] Reed [Chairman & CEO], who prided himself on his knowledge of sophisticated information technology, and made matters worse by making a serious strategic miscalculation. He purchased Quotron, an electronic stock-quotation-information system; like his predecessor, he believed that in the age of global banking selling rapid information about money is the key to making money. But Quotron's customers were brokers and managers of other financial institutions. Citi was a competitor they saw no reason to patronize, and Quotron lost 40 percent of its customers; the net loss for Citi was another \$1 billion.

"Another profitable idea that has since been successfully developed by others turned sour for Citi. The bank was a pioneer in gathering consumer data by wiring cash registers to a national data base. The Reward America program recorded every purchase made at grocery-store checkout counters for a group of selected products. Consumers were rewarded with rebates, but their names were sold to direct-marketing organizations. Citicorp made the tactical error of demanding that grocers pay for the data generated at their own cash registers, and they were infuriated by Citicorp's arrogance and foggy notions about how grocery stores actually work. By the end of the 1980s the project was as good as dead; another 174 pink slips were put into mailboxes. Meanwhile other entrepreneurs, appreciative they said for the opportunity to learn from Citi's mistakes, were doing well in the consumer-data-gathering business.

"At the end of the decade John Reed seemed more like Job than Michelangelo. Day after day there was a stream of bad news from many fronts. Nine of the ten largest banks in Texas had gone under because of the same sort of disastrous commercial-real-estate loans that had so attracted the chairman of Citicorp. John Dingell, a powerful Michigan congressman on the House Banking Committee, declared the bank to be 'technically insolvent,' and the next day there was a run on the bank's Hong Kong branch. Citicorp stock dived. J.P. Morgan ran pointed ads aimed at the \$5-million-and-up market about 'the security of your assets,' and in addition to luring some of Citi's private investors, Morgan and other competitors

also cut into Citi's share of the 'swaps' market. Corporations wondered whether it was any longer prudent to count on a long-term relationship with the nation's largest bank. Even the good news was embarrassing. A 36-year-old Saudi Arabian prince by the name of Alwaleed bin Talal bin Abdulaziz al Saud became Citi's largest stockholder with a welcome infusion of nearly \$800 million and a warning that he would keep his eye on management, which he said, had 'to be more in touch with reality....' Eyebrows were raised. It was one thing for Moses Taylor or James Stillman to own America's premier bank, but a Saudi prince? Critics broke into print with elaborate (and exaggerated) calculations on how Citi had been taken.

"In November 1990 John Reed was summoned to a secret meeting by the president of the New York Federal Reserve Bank and the director of the Fed's division of bank supervision in Washington and informed that he would now have a partner in all important decisions affecting the future of the bank: the federal government. Then for two and a half years the Federal Reserve, the American version of a central bank, and the Office of the Comptroller of the Currency literally moved in. Reed was required to attend monthly meetings with the regulators at which mounting pressure was exerted on him to cut costs, slash dividends, fire staff, and unload investments to build up cash reserves. Ironically, Citi's international business, which had been its salvation at so many points in its history, was now regarded in one important respect as a vulnerability. A significant share of Citi's funds were in large overseas corporate deposits not protected by federal deposit insurance, and the Fed feared that nervous depositors might withdraw these funds and precipitate a crisis. At one point there were more than 300 bank examiners going over Citibank's books. In August 1992 the regulators turned up the pressure and issued a memorandum of understanding that amounted to a formal reprimand of Citi's management for not moving fast enough.

"Reed was now under fire from three directions. Investors had driven the stock down to \$8.50. The board of directors, it was widely reported, was getting ready to fire him. The regulators were demanding more draconian measures. At a board meeting in Mexico City Reed persuaded the directors to hang in with him. He then cut the dividend almost by half, and over the next year and a half he replaced five of his six top executives and cut 11,000 jobs. By the end of 1992 Citi had recovered enough to convince investors to pay \$30 for the stock. Reed's job (and his \$2.2-million annual compensation package) seemed safe. Ironically, the U.S. bank that had done more than any other to escape federal regulators had been saved by Uncle Sam.

"As Citibank officials bet the future of the bank more and more on the financing of consumption rather than on the financing of production, they are counting on governments everywhere to abandon their old-fashioned Benjamin Franklin outlook on the world and give a green light to heavy consumer debt. The success of the Global Shopping Mall, depends upon the expansion of consumer credit

across the world.... (Richard J. Barnet & John Cavanagh, *Global Dreams*, pp. 380-383.)

The Japanese Invest Billions of Dollars in the U.S. and Throughout the World

"...By 1989 the thirteen largest Japanese banks were capitalized at \$500 billion, more than five times the value of the fifty largest U.S.-based banks. These bulging coffers contributed to the low cost of capital for Japanese corporations. U.S. banks had to pay almost twice as much for the money they lent. In the mid-1980s the Ministry of Finance began urging Japanese financial institutions to put their mammoth accumulations of surplus cash to work outside the country to minimize the domestic inflationary impact of Japan's commercial success. Fortunately for Japan, the world's second-largest economy found itself flush with cash at an historical moment when almost anything anywhere in the world could be bought. Neither pride, or national-security worries nor fame nor long tradition could prevail against the new power of money.

"The results of prodding the Japanese into world financial markets and simultaneously devaluing the dollar were substantial:

- By 1992, eight of the world's top ten banks, ranked by assets, were all Japanese; Citibank was the world's twentieth.

- By 1989 Japanese banks held almost 11 percent of U.S. banking assets, up from 2.3 percent in 1974.

- Between 1981 and 1989 Japanese banks increased their share of the assets of the world's top 100 banks from 25 to 46 percent, while the share of U.S. banks fell from 15 percent to 6 percent.

- By 1989 Japanese banks were providing 20 percent of all credit in California.

- By 1988 Nomura Securities, with twenty times the capital of Merrill Lynch, the largest U.S. brokerage house, bought a 20-percent share of Wasserstein & Perella, the leading merger-and-acquisition broker. Nikko Securities purchased 20 percent of the Blackstone Group. Sumitomo Bank bought a significant interest in Goldman Sachs, Nippon Life a substantial share of Shearson Lehman, and Yasuda Mutual Life a major minority position in Paine-Webber. (Richard J. Barnet & John Cavanagh, *Global Dreams*, pp. 405-406.)

Japanese Investors Buy \$90 Billion Worth of U. S. Government Debt

"Every three months the U. S. Treasury holds a global auction of long-term and short-term Treasury bills. Between 1984 and the end of the Reagan Administration, Japanese securities firms were the best customers in the world for the highly prized obligations of the United States, still regarded as the world's most stable society

and the best credit risk on earth. At one auction in 1986 Japanese investors bought 80 percent of the issue. As Daniel Burstein observes, 'If Japanese investors hadn't bought \$90 billion worth of U. S. government debt in 1986, the U.S. budget deficit would have intruded painfully on American life in forms ranging from sharply higher mortgage rates to higher taxes and deeper, more socially divisive cuts in government programs.' (Richard J. Barnet & John Cavanagh, *Global Dreams*, p. 406.)

U.S. Government Owes Private Investors Nearly \$3 Trillion Dollars

"Every day an estimated \$150 billion in U. S. government bonds change hands across a global computerized trading network that virtually never stops. By late 1992, the U. S. government owed \$2.7 trillion in Treasury obligations to private investors – 17 percent of these bondholders were outside the United States – and another \$1 trillion to itself, that is, the bonds were held by federal-government agencies. Since the nongovernmental bondholders are free at any time to sell millions of dollars of long-term U. S. securities literally in seconds, they hold enormous power over the economic decisions of any president." (Richard J. Barnet & John Cavanagh, *Global Dreams*, p. 408.)

The United States Has Lost Its Political Autonomy and Sovereignty

"For the United States, as for every other country, the price of economic integration has been a loss of political autonomy. For years managers of the U. S. economy assumed because America was the flagship of the world economy, indeed the printer and prime manager of the world's reserve currency, the country was relatively free to tune its own economy by raising and lowering taxes and adjusting interest rates. But by 1990 crucial decisions that were traditionally the exclusive province of the president and the Federal Reserve Board were now held hostage to international pressures. (Richard J. Barnet & John Cavanagh, *Global Dreams*, p. 408.)

Bankers Make Imprudent Loans Knowing that U.S. Taxpayers Will Bail Them Out

"Several months before the 1992 election Roger J. Vaughan and Edward W. Hill published a detailed study of the financial health of commercial banks in the United States. They reported that there were 2,000 'troubled banks' in the nation, that 1,200 of them would fail or be forced by regulators into mergers, and that at the heart of the banking crisis were '14 banking holding companies each with more than \$10 billion in assets.' Were their portfolios given 'honest market valuations,' all would show a negative net worth. Although only about 10 percent of commercial banks were in serious difficulty, these included some of the biggest. In 1992 Congress passed a law requiring federal regulators to take over failing banks once their losses reached a certain point. As Bill Clinton took office, he faced the

prospect of having to preside over a rescue mission for the nation's failing commercial banks on a scale approaching that of the savings-and-loan bailout.

"How and why the United States was faced with a string of bank failures beyond anything experienced since the early 1930s is a tangled tale with many subplots. Bankers with tens of billions of other people's money to lend, impelled by the large fees to be made by lending large sums, piled up an unprecedented number of imprudent loans, knowing that the federal government would ultimately pay off their depositors if the loans turned sour.... (Richard J. Barnet & John Cavanagh, *Global Dreams*, p. 409.)

The Money of U.S. Depositors It is Being Placed in Speculative Global Securities

"Banks play two important but distinct economic roles in shaping society. One is to meet the credit needs of large business enterprises. The other is to lend money to the millions of small depositors from whom banks raise capital.... Private local banks financed thousands of small businesses, which employ well over half of the work force in the private sector.

"But in the last twenty years the allure of quick profits in distant markets and the press of global competition have undercut the two functions that the U.S. banking system was created to serve. Debt relief for Donald Trump's casinos is on the scale accorded debtor nations, but the banking system seldom facilitates the financing of long-term investment to expand employment. The money of local depositors is being sucked into speculative global securities and away from local communities badly in need of financing for housing, small business, and local services. Family farms face a severe credit crisis and great numbers of foreclosures and bankruptcies continue across the country. First-time home owners, low-income families unable to afford mortgages at market rates, and small businesses have also been hit hard. Who can get credit and who cannot is a critical determinant of social and political development. What banks do or refuse to do has considerable influence on how a society functions and what a nation looks like. If there is no adequate credit for affordable housing or for small business, the predictable consequences are homelessness, racial tensions, and unemployment. (Richard J. Barnet & John Cavanagh, *Global Dreams*, pp. 414-415.)

Future Scenarios for the World

"History is not over. Nor are we arrived in the wondrous land of techne promised by the futurologists. The collapse of state communism has not delivered people to a safe democratic haven, and the past, fratricide and civil discord perduring, still clouds the horizon just behind us. Those who look back see all of the horrors of the ancient slaughterbench reenacted in disintegral nations like Bosnia, Sri Lanka, Ossetia, and Rwanda and they declare that nothing has changed. Those who look forward prophesize commercial and technological

interdependence – a virtual paradise made possible by spreading markets and global technology – and they proclaim that everything is or soon will be different. The rival observers seem to consult different almanacs drawn from the libraries of contrarian planets....

"The first scenario rooted in race holds out the grim prospect of a retribalization of large swaths of humankind by war and bloodshed: a threatened balkanization of nation-states in which culture is pitted against culture, people against people, tribe against tribe, a Jihad in the name of a hundred narrowly conceived faiths against every kind of interdependence, every kind of artificial social cooperation and mutuality: against technology, against pop culture, and against integrated markets; against modernity itself as well as the future in which modernity issues. The second paints that future in shimmering pastels, a busy portrait of onrushing economic, technological, and ecological forces that demand integration and uniformity and that mesmerize peoples everywhere with fast music, fast computers, and fast food – MTV, Macintosh, and McDonald's – pressing nations into one homogenous global theme park, one McWorld tied together by communications, information, entertainment, and commerce. Caught between Babel and Disneyland, the planet is falling precipitously apart and coming reluctantly together at the very same moment....

"We are compelled to choose between what passes as 'the twilight of sovereignty' and an entropic end of all history; or a return to the past's most fractious and demoralizing discord; to 'the menace of global anarchy,' to Milton's capital of hell, Pandaemonium, to a world totally 'out of control.'

"The apparent truth, which speaks to the paradox at the core of this book, is that the tendencies of both Jihad *and* McWorld are at work, both visible sometimes in the same country at the very same instant....

"I want, however, to do more than dress up the central paradox of human history in modern clothes. It is not Jihad and McWorld but the relationship between them that most interests me. For, squeezed between their opposing forces, the world has been sent spinning out of control. Can it be that what Jihad and McWorld have in common is anarchy: the absence of common will and that conscious and collective human control under the guidance of law we call democracy?....

"What then does it mean in concrete terms to view Jihad and McWorld dialectically when the tendencies of the two sets of forces initially appear so intractably antithetical? After all, Jihad and McWorld operate with equal strength in opposite directions, the one driven by parochial hatreds, the other by universalizing markets, the one re-creating ancient subnational and ethnic borders from within, the other making national borders porous from without. Yet Jihad and McWorld have this in common: they both make war on the sovereign nation-state

and thus undermine the nation-state's democratic institutions. Each eschews civil society and belittles democratic citizenship, neither seeks alternative democratic institutions. Their common thread is indifference to civil liberty....

"In the tumult of the confrontation between global commerce and parochial ethnicity, the virtues of the democratic nation are lost and the instrumentalities by which it permitted peoples to transform themselves into nations and seize sovereign power in the name of liberty and the commonweal are put at risk. Neither Jihad nor McWorld aspires to resecure the civic virtues undermined by its denationalizing practices; neither global markets nor blood communities service public goods or pursue equality and justice. Impartial judiciaries and deliberative assemblies play no role in the roving killer bands that speak on behalf of newly liberated 'peoples,' and such democratic institutions have at best only marginal influence on the roving multinational corporations that speak on behalf of newly liberated markets. Jihad pursues a bloody politics of identity, McWorld a bloodless economics of profit. Belonging by default to McWorld, everyone is a consumer; seeking a repository for identity, everyone belongs to some tribe. But no one is a citizen. Without citizens, how can there be democracy?...

"Ecological interdependence is, however, reactive: a consequence of natural forces we cannot predict or fully control. But McWorld's interdependence and the limits it places on sovereignty is more a matter of positive economic forces that have globalism as their conscious object. It is these economic and commercial forces – the latest round in capitalism's long-standing search for world markets and global consumers – that are the primary subject of this book.

"Every demarcated national economy and every kind of public good is today vulnerable to the inroads of transnational commerce. Markets abhor frontiers as nature abhors a vacuum. Within their expansive and permeable domains, interests are private, trade is free, currencies are convertible, access to banking is open, contracts are enforceable (the state's sole legitimate economic function), and the laws of production and consumption are sovereign, trumping the laws of legislatures and courts. In Europe, Asia, and the Americas such markets have already eroded national sovereignty and given birth to a new class of institutions – international banks, trade associations, transnational lobbies like OPEC, world news services like CNN and the BBC, and multinational corporations – institutions that lack distinctive national identities and neither reflect nor respect nationhood as an organizing or a regulative principle. While mills and factories sit somewhere on sovereign territory under the eye and potential regulation of nation-states, currency markets and the Internet exist everywhere, but nowhere in particular. Without an address or a national affiliation, they are altogether beyond the devices of sovereignty".

"...Capitalists may be democrats but capitalism does not need or entail democracy. And capitalism certainly does not need the nation-state that has been democracy's most promising host.

"...Moralists used to complain that international law was impotent in curbing the injustices of nation-states, but it has shown even less capacity to rein in markets that, after all, do not even have an address to which subpoenas can be sent. As the product of a host of individual choices or singular corporate acts, markets offer no collective responsibility. Yet responsibility is the first obligation of both citizens and civic institutions.

"While they produce neither common interests nor common law, common markets do demand, along with a common currency, a common language; moreover, they produce common behaviors of the kind bred by cosmopolitan city life everywhere. Commercial pilots, computer programmers, film directors, international bankers, media specialists, oil riggers, entertainment celebrities, ecology experts, movie producers, demographers, accountants, professors, lawyers, athletes – these compose a new breed of men and women for whom religion, culture, and ethnic nationality are marginal elements in a working identity....

"McWorld is a product of popular culture driven by expansionist commerce. Its template is American, its form style. Its goods are as much images as matériel, an aesthetic as well as a product line. It is about culture as commodity, apparel as ideology. Its symbols are Harley-Davidson motorcycles and Cadillac motorcars hoisted from the roadways, where they once represented a mode of transportation, to the marquees of globe market cafes like Harley-Davidson's and the Hard Rock where they become icons of lifestyle. You don't drive them, you feel their vibes and rock to the images they conjure up from old movies and new celebrities, whose personal appearances are the key to the wildly popular international cafe chain Planet Hollywood. Music, video, theater, books, and theme parks – the new churches of a commercial civilization in which malls are the public square and suburbs the neighborless neighborhoods – are all constructed as image exports crating a common world taste around common logos, advertising slogans, stars, songs, brand names, jingles, and trademarks.... (Benjamin R. Barber, *Jihad vs. McWorld*, Times Books, Random House: New York, 1995, pp. 3, 4, 5, 6, 7, 8, 13-14, 16-17.)

Corporations Have Replaced the Nation-State in World Affairs

"Gillette's chairman Alfred M. Zeien has said 'I do not find foreign countries foreign.' Welcome to McWorld. There is no activity more intrinsically globalizing than trade, no ideology less interested in nations than capitalism, no challenge to frontiers more audacious than the market. By many measures, corporations are today more central players in global affairs than nations. We call them multinational but they are more accurately understood as transnational or

postnational or even antinational. For they abjure the very idea of nations or any other parochialism that limits them in time or space. Their customers are not citizens of a particular nation or members of a parochial clan: they belong to the universal tribe of consumers defined by needs and wants that are ubiquitous, if not by nature than by the cunning of advertising. A consumer is a consumer is a consumer.

"McDonald's serves 20 million customers around the world every day, drawing more customers daily than there are people in Greece, Ireland, and Switzerland together. General Motors (still the world's largest company despite its uneven recent sales history) employs more people internationally than live in a number of the world's smaller nations. With \$2.4 billion worth of pizzas sold in 1991, the privately owned Domino's earned enough revenues to fund the collective government expenditures of Senegal, Uganda, Bolivia, and Iceland. Toshiba, the General Electric of Japan, boasts in its 1992 annual report that 'as good corporate citizens' they 'do our part to ensure that progress continues within the world community,' but its citizenship – whether Japanese or global – is hemmed in on every side by limits set by the demands of profitability, which in turn is driven by sales in 1992 of \$25 billion, only slightly less than Argentina's recent government budget. Globalism is mandated by profit not citizenship. Fast food goes upscale in the chic new chain Planet Hollywood. And 'On Planet Reebok,' according to the successful ad campaign of an only nominally 'American' athletic shoe company, 'there are no boundaries.' Ralph Lauren's perfume for men, Safari, also boasted of 'Living Without Boundaries' in its launch campaign in 1992....

"...Ramonet argues that in the global economy neither capital nor work nor material is the determining factor, but rather the 'optimal relationship between these three,' which pushes us into the world of information, communication, and administration where traditional nation-states can exert little control and are bound to feel more and more uncomfortable. Robert Kuttner reports that the state-of-the-art handle for the postindustrial company – which clearly is also the post-nation-state company – is 'the virtual corporation' where 'the company is no longer a physical entity with a stable mission or location, but a shifting set of temporary relationships connected by computer network, phone and fax.'

"McWorld is a kind of virtual reality, created by invisible but omnipotent high-tech information networks and fluid transnational economic markets, so the *virtual corporation* is not just a provocative turn of phrase....

"Modern transnational corporations in quest of global markets cannot really comprehend 'foreign policy' because the word *foreign* has no meaning to the ambitious global businessperson. Like Gillette Chairman Zeien, they do not find foreign countries foreign: as far as production and consumption are concerned, there is only one world and it is McWorld. How can the physical distinction between domestic and foreign have resonance in a virtual world defined by

electronic communications and intrinsically unbounded markets? World trade in 1950 stood at \$308 billion. By 1968 it was over a trillion and today it has passed \$3 1/2 trillion; meanwhile, tariffs – as potent a symbol of national boundaries as there is – have declined from 40 percent of average product prices to about 5 percent. If world trade is comprising an ever greater percentage of world GDP, currency exchanges are in turn outstripping trade – some say by as much as three to one.... (Benjamin R. Barber, *Jihad vs. McWorld*, pp. 23-24, 26, 29-30.)

Global Interdependence Reinforces Fragmentation of the World

"With respect to McWorld, the clearest conclusion that can be drawn from this review is that the integrating forces of interdependence associated with globalism actually reinforce the fragmenting tendencies of Jihad they seem to combat. For mineral and energy use patterns seem both to enhance interdependence by reinforcing the imperative for global cooperation *and* to underscore divisiveness, injustice, and weakness, disclosing the susceptibility of the new world economy to the forces of Jihad.... (Benjamin R. Barber, *Jihad vs. McWorld*, p. 43.)

A Small Handful of Powerful Corporations Control the World Economy

"The infotainment telesector is the heart of McWorld and increasingly had the look of a wholly owned subsidiary of a small handful of powerful corporations that, by the month, grow fewer in number and more encompassing in ambition. The concept that drives the new media merger frenzy carries the fashionable name 'synergy,' which describes what is supposed to be the cultural creativity and economic productivity that arise out of conglomerating the disparate industries that once, quite separately, controlled all three segments of the infotainment telesector: the software programming, the conduits and pipes that distribute it, and the hardware on which it is displayed. The production companies turning out product, the phone and cable and satellite companies, and the companies manufacturing or controlling television sets and computers and multiplexes all, in McWorld's ideal economy, belong in the hands of one global company. *Synergy* turns out to be a polite way of saying monopoly. And in the domain of information, *monopoly* is a polite word for uniformity, which is a polite word for virtual censorship – censorship not as a consequence of political choices but as a consequence of inelastic markets, imperfect competition, and economies of scale – the quest for a single product that can be owned by a single proprietor and sold to every living soul on the planet.

"Traditional corporate ambitions that aimed at monopoly within a particular medium have been displaced by the drive for monopoly across media. By the 1990s, according to Bagdikian, seventeen intermedia conglomerates were earning half the total revenues 'from all media' including recordings, cable, and videocassettes. Conglomeration had reduced the number of players from forty-six in 1981 to twenty-three in 1991, of which a handful are genuinely intermedia.

Moreover, Bagdikian was describing the situation just before the Japanese buy-in and the very recent erosion of boundaries between telephone, cable, and broadcast transmission that has accelerated the conglomeration process even more radically.

"Corporations are aiming at control over each step of the image-making process from source to consumer. Where once an author wrote a book and (perhaps via an agent) sold it to a publisher who then printed it, sold serial rights to an independent magazine, and then found still other independent distributors and booksellers to sell it; and where once the author or agent or publisher marketed it to Hollywood, where an independent film studio bought it and turned it into a film, and then found an autonomous distributor to release it and an independent movie-house owner or chain to show it; and where once the film studio sold rights to an independent broadcaster to show the film on television – so that when the full commercial cycle was completed perhaps a few dozen different independent entities participated in a complex, competitive process to bring a creative work to an extended multimedia public by means that allowed both entry and exit for many different creative and financial forces, and maximized choice and opportunity for cultural creators and cultural consumers alike – today the wonders of synergy permit one entity to control the entire process. Not only is the corporate proprietor of a conglomerate likely to own a stable of publishers, one of which will publish a given book, but it can also own the agency that sells the book, the magazine the serializes it, the movie studio that buys and films it, the distributor that purveys it, the cinema chain that screens it, the video export firm that brings it to the global market, and perhaps even the satellite pods or wires through which it is broadcast and the television set and VCR on which it is finally screened somewhere in, say, Indonesia or Nigeria. This is not synergy: this is commercial totalitarianism – a single value (profit) and a single owner (the monopoly holder) submerging all distinctions and rendering all choice tenuous and all diversity sham....

"This takeover mania began in the early 1980s, with quite literally hundreds of media mergers and buyouts, of which I have listed only a representative sample on the accompanying table of media mergers...." (Benjamin R. Barber, *Jihad vs. McWorld*, pp. 137-139, 140.)

Media Mergers Throughout the World

Date/Target/Buyer	Price (in billions)
1966 Paramount (first round) – Gulf & Western (changed name to Paramount in 1989)	\$.125
1982 Columbia – Coca-Cola	\$.750
1985 Fox Broadcasting – Murdoch's News Corp.	

- (20th Century Fox, Fox Television, Fox Broadcasting Co. \$.575
- 1985 MGM/United Artists – Turner Broadcasting
 (keeps MGM's 3,000 film library but sells off the rest for \$.800) \$1.500
- 1986 NBC Network (RCA) – General Electric \$6.500
- 1988 CBS Records – Sony
 (as prelude to bid for Columbia) \$2.000
- 1989 Columbia Pictures – Sony
 (price – in cash – does not include \$1.3 debt assumption and buyout of
 Coke's 49 percent holding) \$3.800
- 1989 Warner Communications (Warner Bros. Pictures) – Time Inc. creates Time
 Warner
 (Paramount tried to interdict this deal via hostile offer by Time,
 Inc.!) \$14.000
- 1990 MCA (first round) – Matsushita (Panasonic: Japanese electronics giant)
 (Universal Pictures and Music), including MCA Records,
 Geffen Records, Motown; publishers group including Putnam,
 Berkley, Jove, Grosset & Dunlap, coward-McCann; theme parks
 including Universal City Studios, Hollywood, Florida \$6.100
- 1992 Videoland (video rental chain) – Philips
 (Dutch electronics giant, chip maker) \$.148
- 1992 MGM (film studio) – Credit Lyonnais
 (French bank takes over from bankrupt Italian buyer; must resell within 5
 years) \$1.300
- 1993 Time Warner – U.S. West (a Baby Bell) buys 1/4 share \$2.500
- 1993 McCaw Cellular Communications – AT&T \$12.600
- 1993 Hauser Communications (cable company) – Southwestern Bell \$.650

1993 Grupo Iusacell (Mexico's second largest cellular company) – Bell Atlantic \$1.040

1993 MCI (long distance company) – British Telecom (buys 1/5 stake) \$4.300

1993 Sprint – France Telecom \$2.100

Deutsche Telekom \$2.100

1993 Wometco & Georgia – U.S. West \$1.200

1993 Castle Rock Films and New Line Cinema – Turner Broadcasting \$.672

1993 Republic Pictures (distribution company) – Blockbuster Video
(video chain and supporter of Viacom bid for Paramount) \$.100

1993 Liberty Media – Tele-Communications, Inc.
as prelude to Bell-Atlantic merger, repurchases Liberty after earlier spin-off \$8.300

1993 T.C.I. (Tele-Communications, Inc., the largest cable company
in the world with 25 percent of U.S.) – Bell Atlantic \$26.000

1994 Nextel – Motorola \$1.760

1994 Times Mirror Cable – Cox Cable \$2.300

1994 Paramount (second round) – Viacom
Redstone's cable empire, after a long bidding war with Barry Diller's
Home Shopping Network (QVC) \$10.000

1994 Blockbuster – Viacom, adding to its Paramount property \$7.600

1995 Houston Industries – Time Warner \$2.300

1995 Cablevision Industries – Time Warner \$2.200

(Benjamin R. Barber, *Jihad vs. McWorld*, pp. 141-143.)

The Integrating Forces of McWorld Have Dismantled Democracies Throughout the World

"And so the original question reappears: in a world where the nation-state and its democratic institutions are being fractured and weakened by the divisive forces of Jihad at the same moment they are being rendered antiquated and superfluous by the integrating forces of McWorld, how is democracy to survive? Where on the vaunted information highway are the roads that will lead to justice or the pipes that will convey the vox populi? Now that they have dismantled the empire of despots and statist political ideologies, including democracy, how can communities defend their common goods in common and thereby free ourselves from the inadvertent public consequences of all the private market choices that masquerade as the whole of freedom? Is deliberative public debate on such questions even possible where McWorld's communication systems secret preferences that, without any discussion at all, modify public attitudes and precipitate private behaviors?...

"The very idea of the public has become so closely associated with nation-states that the idea of a global public potent enough to take on McWorld's global privates seems inconceivable, especially given the further fracturing of local public entities by Jihad's many neotribalisms. In the solipsistic virtual reality of cyberspace, commonality itself seems to be in jeopardy. How can there be common ground when the ground itself vanishes and women and men inhabit abstractions...." (Benjamin R. Barber, *Jihad vs. McWorld*, pp. 137-139, 140, 141-143, 150-151.)

The Emergence of Global Tyranny and Greed

"...The market's invisible hand is attached to a manipulative arm that, unguided by sovereign head, is left to the contingencies of spontaneous greed. Tyranny here is indirect, often even friendly. Alexis de Tocqueville first captured its character 160 years ago when he wrote: 'Fetters and headsmen were the coarse instruments that tyranny formerly employed; but the civilization of our age has perfected despotism itself.... Monarchs had...materialized oppression; the democratic republics of the present day have rendered it as entirely an affair of the mind.... [T]he body is left free, and the soul is enslaved.' The ideology of choice seems to liberate the body (you can choose sixteen brands of toothpaste, eleven models of pickup truck, seven brands of running shoes) but fatally constricts the possibility of real freedom for the soul (you cannot choose *not* to choose, that is, you cannot choose to withdraw from the market or reject the demands of the body.)

"McWorld's markets surrender judgment and abjure common will, leaving public goods to private interests and subordinating communities and their goods to individuals and their interests. The apparent widening of individual consumer choices actually shrinks the field of social choices and forces infrastructural changes no public community ever consciously either selects or rejects. For example, the American's freedom to choose among scores of automobile brands

was secured by sacrificing the liberty to choose between private and public transportation, and mandated a world in which strip malls, suburbs, high gas consumption, and traffic jams (to name just a few) became inevitable and omnipresent without ever having been the willed choice of some democratic decision-making body – or for that matter of individuals who liked driving automobiles and chose to buy one. This politics of commodity offers a superficial expansion of options within a determined frame in return for surrendering the right to determine the frame. It offers the feel of freedom while diminishing the range of options and the power to affect the larger world. Is this really liberty?

"Internationally, much the same thing is occurring. McWorld speaks the language of choice but severs the 'freedom' to buy and sell from the right of women and men to choose in common their common goods or the social character of their shared world. The IMF and the World Bank promote markets but are interested only prudentially if at all in promoting democracy. Indeed, they have shown themselves willing to sacrifice civic equilibrium and social equality for purely economic goals like privatization and free trade. They impose on fragile new would-be democracies economic crash plans that, while they suit the investment strategies of their member nations (and, more important, their member banks), also guarantee popular resentment and generate a nostalgia for the old Communist safety nets. Neo-tribalism and Jihad are often the final beneficiaries. In the near run, agreements like GATT may seem to have a regulative impact since they place power in collectivities of nations – the new World Trade Organization created by GATT, for example – and impose an internationalist majoritarianism on individual nations. Although this compromises the capacity of individual states to regulate their own economies, it supposedly does so in the name of global distributive justice and transnational public goods. In the long run, however, as national sovereignty weakens, the new arrangements actually cede power to markets susceptible to no democratic supervision whatsoever and shrink the global possibilities for public choosing on behalf of fundamental social values.

"Jack Heinkman, president of the Amalgamated Clothing and Textile Workers Union, has complained that the GATT agreement legitimizes the exploitation of up to 200 million children, while the insidious environmental consequences of the surrender of sovereignty have been widely denounced in Europe and in America. Further down the road, however, it is not increasingly less sovereign nations quarreling among themselves but multinational firms and their global markets that will dictate to America and other countries what is and is not possible: whether or not five-year-olds will work thirteen-hour shifts in Pakistan for 20 cents a day, whether or not scrubless on-the-cheap smokestacks in one Asian country will be allowed to undo the good work of conscientiously (and expensively) built facilities in another. Even responsible American firms like Levi Strauss and Company, which has developed voluntary 'Global Scouring Guidelines' for its overseas facilities, are driven by competition and profits to seek cheap labor markets, where

exploitation is endemic and regulation mainly a public relations afterthought...." (Benjamin R. Barber, *Jihad vs. McWorld*, pp. 220-222.)

The Elimination of National Sovereignty

"...Sovereignty is the provenance of citizenship. The sovereignty of democratic states, which gives politics a regulative function with respect to all other domains, is nothing other than the sovereignty of citizens who, in their civic capacity, make advertent common decisions that regulate the inadvertent consequences of their conduct as private individuals and consumers. In a future world where the only available identity is that of blood brother or solitary consumer, and where these two paltry dispositions engage in a battle for the human soul, democracy does not seem well placed to share in the victory, to whomsoever it is delivered. Neither the politics of commodity nor the politics of resentment promise real liberty; the mixture of the two that emerges from the dialectical interplay of Jihad versus McWorld – all it the commodification of resentment – promises only a new if subtle slavery...."

"Thomas Jefferson's warning that merchants have no country has become a literal truth for the multinational corporations of McWorld...." (Benjamin R. Barber, *Jihad vs. McWorld*, pp. 224, 231.)

Integrating the Economies of the World

"Economic interdependence among nations has increased sharply in the past half century. For example, while the value of total production of industrial countries increased at a rate of about 9 percent a year on average between 1964 and 1992, the value of exports of those nations grew at an average rate of 12 percent, and lending and borrowing across national border through banks surged upward even more rapidly at 23 percent a year. This international economic interdependence has contributed to significantly improved standards of living for most countries. Continuing international economic integration holds out the promise of further benefits. Yet the increasing sensibility of national economies to events and policies originating abroad creates dilemmas and pitfalls if national policies and international cooperation are poorly managed...."

"Two underlying sets of causes have led nations to become more closely intertwined. First, technological, social, and cultural changes have sharply reduced the effective economic distances among nations. Second, many of the government policies that traditionally inhibited cross-border transactions have been relaxed or dismantled.

"The same improvements in transportation and communications technology that make it much easier and cheaper for companies in New York to ship goods to California, for residents of Strasborg to visit relatives in Marseilles, and for investors in Hokkaido to buy and sell shares on the Tokyo Stock Exchange

facilitate trade, migration, and capital movements spanning nations and continents. The sharply reduced costs of moving goods, money, people, and information underlie the profound economic truth that technology has made the world markedly smaller.

"New communications technology has been especially significant for financial activity. Computers, switching devices, and telecommunications satellites have slashed the cost of transmitting information internationally, of confirming transactions, and of paying for transactions. In the 1950s, for example, foreign exchange could be bought and sold only during conventional business hours in the initiating party's time zone. Such transactions can now be carried out instantaneously twenty-four hours a day. Large banks pass the management of their world-wide foreign-exchange positions around the globe from one branch to another, staying continuously ahead of the setting sun.

"Such technological innovations have increased the knowledge of potentially profitable international exchanges and of economic opportunities abroad. Those developments, in turn, have changed consumers' and producers' tastes. Foreign goods, foreign vacations, foreign financial investments – virtually anything from other nations – have lost some of their exotic character.

"Although technological change permits increased contact among nations, it would not have produced such dramatic effects if it has been countermanded by government policies. Governments have traditionally taxed goods moving in international trade, directly restricted imports and subsidized exports, and tried to limit international capital movements. Those policies erected 'separation fences' at the borders of nations. From the perspective of private sector agents, separation fences imposed extra costs on cross-border transactions. They reduced trade and, in some cases, eliminated it. During the 1930s governments used such policies with particular zeal, a practice now believed to have deepened and lengthened the Great Depression.

"After World War II, most national governments began – sometimes unilaterally, more often collaboratively – to lower their separation fences, to make them more permeable, or sometimes even to tear down parts of them. The multilateral negotiations under the auspices of the General Agreement on Trade and Tariffs (GATT) – for example, the Kennedy Round in the 1960s, the Tokyo Round in the 1970s, and most recently the protracted negotiations of the Uruguay Round, formally signed only in April 1994 – stand out as the most prominent examples of fence lowering for trade in goods. Though contentious and marked by many compromises, the GATT negotiations are responsible for sharp reductions in at-the-border restrictions on trade in goods and services. After the mid-1980s a large number of developing countries moved unilaterally to reduce border barriers and to pursue outwardly oriented policies.

"The lowering of fences for financial transactions began later and was less dramatic. Nonetheless, by the 1990s government restrictions on capital flows, especially among the industrial countries, were much less important and widespread than at the end of World War II and in the 1950s.

"By shrinking the economic distances among nations, changes in technology would have progressively integrated the world economy even in the absence of reductions in governments' separation fences. Reductions in separation fences would have enhanced interdependence even without the technological innovations. Together, these two sets of evolutionary changes have reinforced each other and strikingly transformed the world economy.

"Simultaneously with the transformation of the global economy, major changes have occurred in the world's political structure. First, the number of governmental decisionmaking units in the world has expanded markedly, and political power has been diffused more broadly among them. Rising nationalism and, in some areas, heightened ethnic tensions have accompanied that increasing political pluralism.

"The history of membership in international organizations documents the sharp growth in the number of independent states. For example, only 44 nations participated in the Bretton Woods conference of July 1944, which gave birth to the International Monetary Fund. But by the end of 1970, the IMF had 118 member nations. The number of members grew to 150 by the mid-1980s and to 178 by December 1993. Much of this growth reflects the collapse of colonial empires. Although many nations today are small and carry little individual weight in the global economy, their combined influence is considerable, and their interests cannot be ignored as easily as they were in the past.

"A second political trend, less visible but equally important, has been the gradual loss of the political and economic hegemony of the United States. Immediately after World War II, the United States by itself accounted for more than one-third of world production. By the early 1990s the U.S. share had fallen to about one-fifth. Concurrently, the political and economic influence of the European colonial powers continued to wane, and the economic significance of nations outside Europe and North America, such as Japan, Korea, Indonesia, China, Brazil, and Mexico, increased. A World in which economic power and influence are widely diffused has displaced a world in which one or a few nations effectively dominated international decisionmaking.

"Turmoil and the prospect of fundamental change in the formerly centrally planned economies compose a third factor causing radical changes in world politics. During the era of central planning, governments in those nations tried to limit external influences on their economies. Now leaders in the formerly planned economies are trying to adopt reforms modeled on Western capitalist principles. To the extent that these efforts succeed, those nations will increase their economic

involvement with the rest of the world. Political and economic alignments among the Western industrialized nations will be forced to adapt.

"Governments and scholars have begun to assess these three trends, but their far-reaching ramifications will not be clear for decades.

"Cross-border economic integration and national political sovereignty have increasingly come into conflict, leading to a growing mismatch between the economic and political structures of the world. The effective domains of economic markets have come to coincide less and less with national governmental jurisdictions.

"When the separation fences at nations' borders were high, governments and citizens could sharply distinguish "international" from "domestic" policies. International policies dealt with at-the-border barriers, such as tariffs and quotas, or responded to events occurring abroad. In contrast, domestic policies were concerned with everything behind the nation's borders, such as competition and antitrust rules, corporate governance, product standards, worker safety, regulation and supervision of financial institutions, environmental protection, tax codes, and the government's budget. Domestic policies were regarded as matters about which nations were sovereign, to be determined by the preferences of the nation's citizens and its political institutions, without regard for effects on other nations.

"As separation fences have been lowered and technological innovations have shrunk economic distances, a multitude of formerly neglected differences among nations' domestic policies have become exposed to international scrutiny. National governments and international negotiations must thus increasingly deal with "deeper" – behind-the-border – integration. For example, if country A permits companies to emit air and water pollutants whereas country B does not, companies that use pollution-generating methods of production will find it cheaper to produce in country A. Companies in country B that compete internationally with companies in country A are likely to complain that foreign competitors enjoy unfair advantages and to press for international pollution standards.

"Deeper integration requires analysis of the economic and the political aspects of virtually all nonborder policies and practices. Such issues have already figured prominently in negotiations over the evolution of the European Community, over the Uruguay Round of GATT negotiations, over the North American Free Trade Agreement (NAFTA), and over the bilateral economic relationships between Japan and the United States. Future debates about behind-the-border policies will occur with increasing frequency and prove at least as complex and contentious as the past negotiations regarding at-the-border restrictions.

"Tensions about deeper integration arise from three broad sources: cross-border spillovers, diminished national autonomy, and challenges to political sovereignty." (Henry J. Arron, Ralph C. Bryant, Susan M. Collins and Robert Z. Lawrence.

Quoted in the Preface to the Studies on Integrating National Economies in Miles Kabler, *International Institutions and the Political Economy of Integration*, Washington, D. C.: The Brookings Institution, 1995, pp. xi, xii-xvi.)

A Road Map for the 21st Century

"It is the thesis of this book that most of the griping social problems we are bombarded with each day in our newspapers, jobs, families, and communities are all diverse manifestations of a single common factor: a shift into an "Age of Everything-Everywhere." The way we live, work and govern ourselves is about to plunge into a fundamental shift, a major break from old trends. We are on the threshold of one of those rare moments in history – that have only happened three times before – when all the cards of power and wealth, of family and self, are being reshuffled and dealt anew...."

"To understand the scope of the coming transition, we can study the previous shifts into new dimensions. Each leap into a new dimension was accompanied by a complete shakeup in political organization. A major shift occurred during the First Dimension from the countless bands of nomadic cave dwellers toward highly organized collective governments in the growing villages and nascent city-states. The Second Dimension saw the rise of regional kingdoms followed by colonial empires spanning the globe. The Third Dimension gave rise to a superpower rivalry and a struggle to control the heavens. We will soon see why the Fourth Dimension, for good or bad, will herald global government.

"The rules governing wealth will also shift.

"Accumulating wealth is much like accumulating political or military power. Any new competitive edge, additional piece of information, or ability to maneuver can spell the difference between success and failure. Each new dimension gives birth to an additional degree of freedom and action, as well as the ability to reach fresh opportunities inaccessible to those who do not enter the realm of the new dimension. The new wealthy citizens of the First dimension were the merchants and traders who capitalized on the new dimension – the vital trade route.

"Similarly, when society progressed to the Second Dimension, those who accumulated unparalleled wealth were those who knew how to set up empires and control the seas (as did the Phoenicians and Greeks, later the Romans and Venetians, then the Spanish and the English).

"The Third Dimension, the era of air transport, gave great new power to multinational corporations to move personnel, parts, and finished goods overnight. It made for easier competition against those who did not make this transition. Manufacturing could be established around the world to take advantage of differences in wages, materials, and skills. It allowed the creation of truly global organs of wealth that often outgrew the host nations in which they operated...."

"As global capital grows, global banks – the pipelines through which capital flows – wield enormous power. Many have become so large as to outstrip the national treasuries of many countries. Each of the top five global banks alone has more assets than the government reserves (including gold) of the United States, Japan, and Germany combined. These financial giants are redefining banking and greatly facilitating our shift into a global free-flow of capital.

"With 2,200 overseas offices in eighty-nine countries, Citicorp is the most far-flung bank in the world. With 20 million customer accounts, it also has the greatest number of clients, scattered throughout Europe, Asia, North America, and the expanding economies of the Second World.

"Only a decade ago, its customers in Hong Kong or Australia could only get local services; going from one branch office to another was almost like changing banks. Then Citi spent a billion dollars on state-of-the-art computer and telecommunications equipment and melded thousands of branch offices in scores of countries into a single bank. Citicorp had gone global.

"Today any terminal in the bank can scour a hundred countries for the best interest and exchange rates and the best combination of currencies, taking local tax codes into account. Corporations can collect bills from customers abroad because the receivable can be sold to Citi, which has the global clout and local muscle to make buyers pay up. Ten years earlier, the technology to operate on such a scale simply did not exist.

"Citi's new global services are for corporations and individual clients as well. Its best customers receive multicurrency accounts enabling them to write or cash checks in any currency. Its 2 million credit cards are valid all over the world, no matter where the holder lives or how he or she is billed. Citi's 2,000 ATM machines worldwide are tied into a single network, allowing a tourist in Buenos Aires to tap into account balances in New York or Paris. Home banking terminals have leveraged Citi's services even further: they bring the services of a megabank into every home or office equipped with a phone line.

"Competitive pressure are forcing banks to follow Citi's lead and integrate branch offices into a single whole. Banks are also exchanging data with one another through credit card or ATM transactions, check clearinghouses, and wire transfers. They will soon share the same global regulations. In the end, while the logos on the bank doors will vary, they will all have effectively merged into a single organism....

"The same sources are also transforming the world's stock exchanges and financial centers. Until recently, the various national stock exchanges had evolved surprisingly little since the first gathering of Dutch merchants in front of the Van der Buerse home in the thirteenth century. Five centuries later, two dozen stockbrokers met under a buttonwood tree in lower Wall Street in much the same

fashion. Over time, the meeting place became the world's largest marketplace for securities, the New York Stock Exchange (NYSE).

"Today, the tree is gone but the trade is conducted in ways similar to the Van der Buerse's, with buyers and sellers running, crowding together, raising hands, frantically yelling to get their order entered in the books. These procedures are followed in Paris, Brussels, Copenhagen, Stockholm, Zurich, Tokyo, and elsewhere.

"Over the next twenty years, a radical transformation will occur in how sellers find buyers in the Placeless Society. As centers are no longer needed, stock markets as we have known them will become extinct. The reasons, of course, are computers, telecommunications, overnight couriers – and the sun. In a global economy, the sun never sets. As investors hold an increasing proportion of their portfolio in foreign companies, they are no longer willing to wait until foreign stock exchanges open in order to buy or sell. Because of different time zones, a seller in Bonn would have to wait until mid-afternoon before the NYSE even opened for business.

"The future belongs to Fourth Dimension clearinghouses like the NASDAQ, which, unlike a physical stock exchange in one location, are networks of brokerages connected electronically. Their operations are simultaneously accessible by anyone in the world. Although the NASDAQ is much younger than the NYSE, it already enjoys the same share volume.

"Yet other avenues of trading are already developing. Nadoff, Instinet, Posit, Transvik, and other systems execute trades on an automated basis. And the big brokerage firms like Merrill Lynch match buyers with sellers in-house, linking up to other networks as needed. These automated systems will necessarily become interlinked and competitive, bringing transaction costs to near zero. Thus the world's stock markets will have merged into a twenty-four-hour auction with automated middlemen. Liquidity, geographic scope, and transaction volumes will never have been greater.

"The automation of global capital flows will make financial "centers" obsolete. Almost everyone in the global web has access to the same information and can effect the same transactions. Hence the concentrated power of London, New York, and Tokyo may be reduced to mere processing nodes in a ubiquitous network.

"London, the world's premier financial center, has more international banks and orchestrates more international financial transactions than any other city. Yet the decentralization caused by digital capital is rapidly eroding its preeminence; power is diffusing to offices and computer terminals everywhere. The world no longer needs a financial "center."

"Nor does the world need banks as we have known them. Banks once supplied the crucial missing link between providers of capital (depositors) and borrowers. In the Age of Everything-Everywhere, a borrower no longer needs the bank to find the cash. With computerization, large corporations go directly to cash-rich insurance companies and pension funds when they need to borrow cash, eliminating the need for middlemen. Large institutional investors set up computerized networks, look for ways to swap shares among themselves, and bypass the stockbrokers altogether."...

"But far more has changed than the nature of capital or the institutions that manage it. At stake is the very role of the nation-state. This is an era in which capital has become so fluid and omnipresent that it can no longer be controlled by individual countries. When capital represented physical things (tractors or inventory), it could be stopped at the border. But when capital is conveyed in electrical impulses, borders become meaningless. For a capitalist in the Age of Everything-Everywhere, nation-states no longer exist.

"John Maynard Keynes argued in 1936 that a government could fine-tune its economy by modulating its levels of taxing and spending. Later the monetarists further argued that governments could control their economies by regulating the interest rate and money supply. For the last thirty years, Keynesianism and monetarism were the two levers used by industrialized economies to control their expansion.

"Fiscal and monetary policies worked somewhat in the 1960s and 1970s when national economies were still closed systems. In the Placeless Society, they no longer work, and both Keynesianism and monetarism are obsolete. The enemy, of course, is digital capital....

"Many investors in the United States have discovered a simple way to invest internationally, in everything – from Mitsubishi and Deutsche Bank to Telefonos de Mexico – through any of 1,400 world-class companies traded on US exchanges as American Depositary Receipts (ADRs). The ADR certificates represent ownership of a pool of shares of foreign-based corporations that are held in bank vaults. The bank, in turn, takes care of dividend distributions, foreign-currency conversions, foreign taxes, and paperwork. The trading of ADRs has now topped \$200 billion a year; with fifteen new companies listed each month, the volume has been doubling every two years for the past decade.

"Global investors may also buy into a mutual fund that offers a cocktail of several stocks lumped together. Operated for a small fee by professional fund managers, mutual funds absorb the still-present idiosyncrasies of global investing. They benefit from the extraordinary investment opportunity available in areas of rapid growth, and, like ADRs, translate remote-country investment opportunities into all the advantages of digital capital transacted in a flash.

"International mutual funds come in several flavors to suit the investor's tastes: there are country funds like the "German fund" or the "Chilean fund"; regional funds, which group related countries together, as in the "European fund," the "Asian fund," or the "Latin America" fund; and "global funds," which target the best of the planet....

"World trade accounts for nearly \$8 trillion in goods and services a year, a number that is still growing fast. In the United States, the proportion of the economy involved in trade has doubled in the past two decades and represents one-sixth of total GNP. A quarter of US agricultural product is sold abroad, and one in six American manufacturing jobs depends on exports.

"While the United States is dependent on foreign trade, it pales by comparison with the rest of the world. The average country is twice as dependent on world trade as is the United States. One-half of the value of the economies of Germany, France, the United Kingdom, and Canada consist of imports and exports. In nineteen countries the level of annual trade is so great that the value of products clearing its ports exceeds its GNP; Singapore, truly a "distributor nation," ships products in and out at such a frenetic pace that they equal nearly five times its national income. Without international trade, national economies simply stop.

"This reality of placeless commerce, our mutual dependence on one another, is the primary force tearing down centuries-old administrative barriers between our countries. The average worldwide tariff has fallen from nearly half the value of an imported product in the early 1950s to less than 5 percent today. Passenger cars, foods, and pharmaceuticals are standardized to enable them to cross borders without administrative hurdles. More and more, commerce is conducted in a borderless world.

"While protectionist politicians flex their muscles from time to time, our world economy has grown so interdependent that it would be impossible to reerect barriers between countries without causing their economies to crash. Nations are no longer insular economic blocks acting on their own, but integral threads in a vast fabric. The world's economy can no more return to isolated nation-states than Europe or Japan can return to medieval feudalism. The forces of placelessness integrating the world economy are just too strong to let us slide backward....

"As world trade has grown, so have its captains: the multinational corporations. They cross national boundaries so freely that the major cities of the world have the same business directory, products, and services: Agfa-Gevaert, Amoco, Barclays Bank, Bayer, Canon, CIBA-Geigy, Citicorp, Citizen Watch, Club Med, Coca-Cola, Conoco, Du Pont, Esso, Exxon, Ford, Fuji, General Electric, General Motors, Gulf, Hewlett-Packard, Hoechst, Honda, Hyundai, IBM, Kodak, Levi Strauss, Matsushita, Maxwell, Mazda, Mitsubishi, Mobil Oil, Monsanto, Nestle, Nippon, Nissan, Procter & Gamble, Ricoh, Sanyo, Seagram, Sharp, Shell, Siemens,

SmithKline, Sony, Sumitomo, TDK, Texaco, Texas Instruments, 3M, Toshiba, Toyota, Unilever, Xerox, Yamaha – even McDonald's.

"These and 37,000 other titans expand unimpeded in a global market and now rival nation-states on the rosters of world power. One-third of global trade is conducted between diverse branches within the same corporation. The companies account for over one-fourth of global production and often dwarf the economic power of the countries in which they operate. Even in 1990, of the top 125 economic entities (whether government or corporate), over half were multinationals. In 1992 the revenues of General Motors would make it the largest "country" in Africa and the second largest in South America. The entire GNP of oil-rich Saudi Arabia is only slightly larger than the revenues of Exxon. All Venezuela fits easily into IBM. Toyota and Daimler-Benz each produce more than the Philippines. Holland's Philips, Switzerland's Asea Brown Boveri, and Sweden's Electrolux all practically dwarf the countries that contain them.

"Rather than be intimidated by these commercial giants, each country now seems to court them to gain their favors, dismantling bans against foreign-owned transnational corporations. Canada, India, Russia, Mexico – even Cuba and China – are opening their markets and liberalizing ownership rules. And the multinational corporations come.

"The nature of multinational corporations is also changing. Not only do they have distinct operations in two or more countries, but they also are managed as if countries did not exist: there is only the world.

"The term multinational is out of date because it implies that nationality is relevant. It is like calling ozone depletion, AIDS, or weather patterns multinational instead of global. Many economists now use the term transnational, but that misses the point too: the idea of national classification is steeped in nineteenth-century notions of economics and power. The titanic entities that live among us do not see "nations."

"They take the best from around the world, ignoring lines on political maps. When necessary, they blend chameleonlike into the local landscape, owing no allegiance. Like a headless amoeba, the corporate headquarters could as easily be in one country as another, or not be confined to place at all. This new engine of global wealth is perhaps best described as a globocorp....

"As the poorer two-thirds of the world's 5 billion people rise from the mud, the globocorps are eager to provide them with soaps, machines, cameras, and radios, a form of industrial "Coca-colonization." With much of Asia, Latin America, Africa, and Eastern Europe just beginning to build their economies, the globocorps – many say "globalopolies" are ready....

"The shift toward globalization will create new challenges and opportunities. Globocorps are already so numerous and powerful that some firms specialize in selling services to other globocorps. Ogilvy & Mather's strategy is to develop one-stop shopping for its globocorps. Ogilvy & Mather's strategy is to develop one-stop shopping for its globocorp clients doing worldwide advertising. It was the first Western company to set up advertising behind the Iron Curtain, and it maintains nearly 300 offices around the world.

"The very company that provides communications to globocorps is itself global. Intelsat (International Telecommunications Satellite Organization) is a consortium of 122 countries. The system comprises a cosmic highway with seventeen satellites transporting telephone, facsimile, telex, computer data, and television signals, at the speed of light. Intelsat enables Citibank to monitor its global capital flows, IBM to talk to its suppliers in Japan, and Hewlett-Packard to implement state-of-the-art products on a global scale....

"As the Baton of economic power passes to the rising globocorps, global managers are waltzing through world cultures with grace. This new breed of multicultural player glues together projects whose teams span the globe. The recent head of General Electric's computing tomography group illustrates this trend: born in Morocco of Jewish parents and schooled in France, he received his PhD in California, married an American, worked in Paris, and headed up GE Medical Systems in Wisconsin.

"During the 1980s the board of directors of the world's major corporations shifted toward an international composition in preparation for the new realities. Britain's Imperial Chemical Industries illustrate the shift. In 1982 ICE's sixteen-person board was all British; by 1989 it included two Americans, a Canadian, a Japanese, and a German. Of the top 180 executives of ICI, over a third are now foreign. Whirlpool International, headquartered in Italy, has a six-person management team with executives from Sweden, Holland, Belgium, Germany, Italy, and the United States. The eight-person board of Switzerland's engineering giant Asea Brown Boveri is made up of four nationalities, and their executive committee is made up of five. IBM has five nationalities among its top executives, Unilever has four, and Shell Oil has three. Japan broke ground when Sony appointed an American and a German to its board. With competition like this, the large corporations that fail to diversify their top management are unlikely to flourish in the world we are entering.

"Globocorps are so supranational that they feel little loyalty toward the nation-state where they are headquartered, and global managers reflect this new reality: they are not to promote a particular country but to undertake activities that enhance the globocorp's profitability, market share, or stock price....

"Because our globocorps and their managers seek to act as though borders do not exist, it is impossible to classify a corporation by its national allegiances. Corporate nationality is a dated notion. At one time, Ford was clearly American, and Volkswagen German. Management, employees, shareholders, production facilities, even key suppliers, were all from the same country. Globocorps don't follow such simple rules.

"Today, it is hard to tell an American globocorp from a European or Japanese one. Their "nationality" is as meaningless as the "nationality" of the clouds blowing across the sky. Consider IBM, the jewel of "American" know-how: headquartered in Armonk, New York, with research facilities in Switzerland and operations in forty-six countries, it purchases components from Japan, assembles them in Singapore, markets and services everywhere. Almost two-thirds of IBM's revenues are outside the United States; its stock is traded in the major exchanges of ten countries; its list of shareholders include Saudi Arabians, Koreans, and Belgians; and it pays taxes everywhere.

"Even the national companies set up by European governments after World War II have turned their backs on economic nationalism. Britain's largest glassmaker, Pilkington, has joined forces with Nippon Sheet Glass in Japan and Saint-Gobain in France. Italy's Olivetti is working closely with Japan's Hitachi. Daimler-Benz, Germany's largest and most powerful industrial group, is courting Mitsubishi and Fujitsu and has acquired Britain's ICL. These global pioneers are charting new territory in a new world, disregarding the favors of parochial politicians....

"While governments compete with sweet deals to attract free-flowing globocorps, there is a risk: their goals are divergent. Governments strive to increase local standards of living and offer full employment, whereas globocorps strive to maximize worldwide market share, profits, and shareholder values. While international business is surging ahead in a supercharged "turbocapitalism," the political world is being left behind in the dust. In many ways, the economic system is becoming entirely decoupled from the political structures that once controlled and regulated them.

"The fluidity of globocorps gives them a power edge over rigid government structures. The more corporations globalize, the less authority and control is left to local or national governments. Corporations can play off one regional government against another and dictate the terms of their involvement. This is happening in tax concessions, infrastructure subsidies, and enforcement of pollution and worker-safety controls. Power is inexorably shifting from nations to newer economic engines.

"The history of multinational corporations over the past 200 years provides key insight into the globocorps of the next century. When multinational trading companies grew in prominence in the seventeenth and eighteenth centuries,

"primitive" peoples were impotent to negotiate with these technologically superior entities that came with guns, ideas, and jobs, making offers that could not be refused. Their ships left with slaves, gold, silver – anything the trading companies deemed of value that could be sold elsewhere.

"By the twentieth century, small industrialized nations began to feel the pressures of multinational corporations usurping their sovereignty. Finland, Costa Rica, and Malaysia, swimming in a sea of corporate giants, currently have little autonomy. As nations, they lacked a critical mass in language, technology, or economic muscle to compete successfully without surrendering sovereignty. For decades they had to give up any notion of autonomous development; their economies were largely at the pleasure of nimble globocorps looking for the best deals.

"What was first true for poorer regions, then small industrialized countries, is now also true for the giants: Germany, France, Japan, and the United States. Once, US multinationals "invaded" Latin America; now, the United States feels an invasion by the Japanese, and Europe feels the presence of the Americans. Today, even the superpowers are losing their freedom to set interest rates, pollution controls, tax rates, or social programs. Unseen forces of globalization seem in control, pitting one set of national programs against another, forcing them into a common battle to attract globocorp trade. The last vestiges of do-it-alone national sovereignty have nearly vanished....

"In America, politicians look the other way while accepting millions of dollars in political "contributions." The donors' list reads like a *Who's Who* of international business, including Switzerland's CIBA-Geigy and Nestle, Canada's Seagram, and Hong Kong's Marine Midland Banks.

"Globocorps routinely hire high-powered Washington lobbyists (often former government employees) to push the right buttons along Pennsylvania Avenue. In 1987 and 1988, when Toshiba faced US trade sanctions for selling sensitive materials to the Soviet Union, Toshiba reportedly spent \$30 million on lobbyists. In 1982, when Tennessee Senator James Sasser supported buy-American automobile legislation, Nissan executives held a fund-raiser supporting Sasser's opponent. If sovereignty means controlling one's political system, countries everywhere are losing their sovereignty. Governments and democracies will survive, but unless they adapt to the realities of world globalization, it is the globocorps that will govern....

"The old scoring system not only measures the wrong variables, it measures them inaccurately. In the old order, the value of imports was easy to measure: a ship would arrive with X tons of timber or Y yards of cloth. In the new age, wealth springs from service and its kindred knowledge, not things. We trade intangible services impossible to value: engineering, design, marketing ideas, management –

often transferred across national borders within the same globocorp. US customs values a computer tape according to the number of square inches, although the data itself may represent millions of hours of imported man-hours done abroad. Even if the customs service knew its true value, it could not stop it from being zapped across borders by telephone or corporate satellite link, or even be aware that it had happened. Products of the highest value today are invisible and intangible. Nation-states are at a complete loss in the new economy.

"What is the answer? The effective economists of the twenty-first century will start by throwing away nineteenth-century concepts of "nationality," "physical products," and "country of origin," and focus instead on regional development: jobs, training, and local investment. It sounds simple, but economists have few tools to effectively manage our economies in the decades ahead....

"But as power devolves to the most local of levels, many questions remain unanswered. Political scientists, sociologists, and economists have no theories or tools for solving the challenges posed by the Placeless Society. Still unknown is how conflicts will be resolved, or how – and if – the enormous wealth accumulated by the rich in one region will be redistributed to assuage the plight of the poor somewhere else. And if questions of income distribution are not resolved, does it not usher in an age of class warfare, unprecedented global immigration, and terrorism? And how will these tiny microstates solve the larger problems that not even today's nation-states can solve (global pollution, international drug flows, illicit arms shipments)?

"Turning our attention to these areas, we now discover the ultimate paradox of the twenty-first century: while power is devolving, it is also consolidating. While the nation-state is breaking into smaller autonomous units, other powers are coalescing into large supranational blocks. Indeed, placelessness may bring ultimate sovereignty to the only level where conflicts can be resolved, one that offers both the promise of a warless world and the constraints of Big Brothers; where the world's peoples are for once free, but the risk of global tyranny makes that freedom more uncertain....

"The new millennium will mark the devolution of power from the large nation-state to local administrations, and conversely, a shifting of other powers to supranational, even global, authorities.

"In the twenty-first century, we will each retain our "indigenous" cultures, our unique blend of tribal affiliations, some acquired by birth, others chosen freely. Many of us will live in one place for most of our lives and take pride in the local region. Yet our passion for the large nation-state, for which our ancestors fought with their blood, will dwindle to the same emotional consequence of county or province today. A new spirit of global citizenship will evolve in its place and with it, the ascendancy of global governance....

"The North Americans, fearful of being locked out of a united Europe, and needing to react to a global Japan, have formed their own regional trade block in the North American Free Trade Agreement – NAFTA. Through it, the United States, Canada, and Mexico have each yielded some of their sovereignty in exchange for a union expected to increase the standards of living for all.

"Under NAFTA, the three largest North American countries have set up a rudimentary "supergovernment," empowered to resolve disputes among the club members. Cut out of the process are the congresses, court systems, and constitutions of the member countries. In a very real sense, NAFTA is a sovereign government reigning over nearly 400 million people and an economy equivalent to nearly a third of the world's output. Its rules dictate that disputes be submitted to an arbitration panel whose findings supersede the domestic laws of each member nation. For the first time, US, Canadian, and Mexican courts will be bound to enforce the decisions of an international body against its own trade officials....

"We are beginning to learn that in the Placeless Society, trade blocs need not even be contiguous landmasses. We have a new class of "hyperblocs" entirely in the Fourth Dimension, as globocorps continue to grow their webs completely blind to place. The effect is an invisible shuttle flying between blocs, tightening the warp and weft into a single fabric. The United States and Canada are part of NAFTA in North America, but also key members of APEC in the Pacific Rim. Mexico, too, is in NAFTA, but also part of the free-trade Group of Three linking it with Colombia and Venezuela. Chile would "logically" fall in with the Andean Group of Mercosur, but may first join NAFTA centered some 5,000 miles to the north. Brazil, already the anchor for Mercosur, is being courted by both NAFTA, for its American credentials, and the European Union, for its Portuguese and Spanish connections.

"Each piece seems awfully complex, and that is precisely the point. The lines are blurring and liaisons that depend strictly on place become irrelevant. Just as nation-states are already rendered obsolete by global trade, so too are regional trade blocs. The Politicians cloistered in meeting rooms may draw the map of the world however they want, but in reality, Asia and North America are inexorably linked, as are both with Europe and the rest of the world.

"Historians looking back on us today will view regional blocs as a mere stepping-stone toward the world as a trading bloc, perhaps one political unit. In the EU, NAFTA, and elsewhere, countries are now learning to yield sovereignty to supranational bodies, to trade a bit of autonomy (some say in a Faustian bargain) for a higher standard of living and greater regional security. It will only be a matter of time before these blocs, in turn, merge into a whole.

"The formalized consolidation may be already at hand.

"The collapse of the centralized economies of the communist camp have left the world with one model for the engine of economic wealth: capitalism. Economists the world over now understand that in the long term, free trade (even with its temporary displacements of workers) raises general living standards in rich and poor countries alike, and the international trade, when properly done, is a win-win game in which all participating countries benefit (usually through the twin benefits of lower domestic prices and increased export opportunities).

"In response, countries are already positioning for the next step: the world as a single trade bloc. The foundations to such a reordering have already been laid in the pathbreaking World Trade Organization.

"The WTO is a worldwide trade bloc linking 124 nations. Effective in 1995, it was built on the foundations of its predecessor, GATT, to bring it up to date with the new realities of world trade. The eight-year "Uruguay Round" to update GATT demonstrated the need for more than a one-time trading agreement; what was needed was a mechanism to update the agreement on an ongoing basis. The earlier agreement, GATT, had no teeth: countries were flaunting the rules with impunity, "freeloader" countries were taking but not giving; disputes were often never resolved.

"The WTO changed all that by effectively setting up a limited world government with sovereignty over world trade. It has replaced an arcane trading system with a new one regulated by the uniform rule of law, where the mighty nation-states and the tiny ones are treated equally. Under the rules of the WTO, each country has one vote. St. Kitts or Fiji has the same vote as the United States or Japan. Whenever three-quarters of the countries agree, the decision becomes binding on every member of the group, and noncompliance elicits stiff fines, sanctions, or expulsion.

"The WTO is the most expansive free-trade agreement in the world's history, reducing tariffs everywhere on the globe to almost zero, bringing the Age of Everything-Everywhere to the institutional level. It limits government subsidies for basic research, agriculture, and other industries, and provides for much swifter settlement of disputes between members, an overwhelming advantage in reducing regulatory risks of trade.

"These notions are far-reaching, but the most significant aspect of the WTO is that member governments have voluntarily yielded sovereignty over domestic laws governing the environment, food, safety, and way of life. Under the new agreement, one country can challenge any domestic law of another as a restraint on trade. If a three-person WTO tribunal of "experts" agrees, their decision becomes international law, unless the country can somehow convince the hundred or so others to vote against it within sixty days.

"Ultimately, what constitutes an "unfair trading practice" is at the sole discretion of the WTO. Social policies achieved in the twentieth century may be unraveled in the twenty-first. No international law, for example, requires a minimum wage, and therefore products made with sweat-shop labor could not be kept out. So too with products that destroy rain forests or are made with polluting processes. A Geneva-based panel already rules that the US government can no longer restrict tuna caught with methods that kill dolphins.

"Each country is also losing its sovereignty to protect its citizens from imports that may infringe on public safety. Prior to the WTO, the United States could restrict imports of foods carrying traces of dangerous pesticides. Since many countries use these same pesticides widely, is not the American restriction an unfair trade barrier? The Europeans already complain that the US smog-control regulations restrict European auto imports.

"By coaxing the nations of the world to surrender sovereignty freely in exchange for a more regulated marketplace, the World Trade Organization is raised to a level that supersedes the constitutions of each member country. In many ways, its ascendancy represents the triumph of the globocorp over nation-states that are still steeped in a regionalized world. In a very real way, the power vacuum created in the Fourth Dimension has been filled by commercial interests, leaving the politicians behind in its wake.

"Some fear that the WTO will usurp the rights of individual nations to determine their own environmental rules, health, and labor standards. Local, state, and national democratic institutions are jeopardized by faceless bureaucrats more concerned with increasing trade for its own sake than adapting to human and cultural idiosyncrasies.

"The organization is devoid of the checks and balances normal to a modern democracy. When panels on agribusiness meet to discuss pesticides, the interests of commerce, trading companies, and chemical companies will be heavily represented; environmentalists and consumer-safety advocates will likely be shut out as being "ignorant" of the lofty notions of world trade. Meetings behind closed doors will be inaccessible to public review.

"In a very real sense, the WTO is a tyranny of commercialism. The laws at the nation-state level are mature ecosystems that have evolved over centuries. The sudden rise of placelessness, with sovereignty over laws now subject to world bodies, has left us naked. We do not yet have robust international equivalents of national antitrust, consumer protection, air and water pollution, corporate accounting, and minimum wage and labor laws. The WTO, as much as it is needed for trade, has exposed new imbalances in power....

"The question for most people is not whether we need international governance, but to what extent and how the power is to be distributed. If we have laws, who

shall make them? The United States? Japan? The rich countries? The poor ones? And if we set up a broad-based legal body, what form should it take? If the League of Nations and the United Nations failed, will we get it right the third time? And how should it be different...?

"Perhaps what is needed is a world police force with special training and equipment usually not found in armies designed to seize and hold territory. Any global force is likely to need language skills in the areas under patrol. They will need special equipment, transport for refugees, tent cities, prefabricated buildings, generators, mass food-preparation, water-filtration equipment...and guns....

"Because all of this takes money, the present financing system of the United Nations is inadequate. A few countries overpay, many underpay, and too many are in arrears. Financing UN operations has been compared to financial bungee jumping: bold resolutions are passed without the resources to enforce them.

"Global taxes will likely come into being in areas that depend on the maintenance of peace: taxes concerning Antarctica and seafloor mining, fishing, and transport; long-distance aircraft, air freight, and passengers. Look, too, for pollution taxes, particularly on carbon dioxide, fluorocarbons, and other global pollutants. Atomic energy may be taxed, as may be trade in armaments, satellite launchings, orbit slots, microwave bands, telecommunications and global television, and globocorps.

"Diversifying the income stream makes it impractical for one country to sway the world body merely by withholding dues. Global taxation will also match tax receipts to those people or countries most likely to benefit from peaceful global development....

"The need for a world government is clear, but about how to organize its day-to-day details, we do not have a clue. How are task forces formed and objectives defined? How is duplication eliminated? Or should it be? These are important questions because the United Nations of the past has scored low and the needs of the future are high.

"The global government of the twenty-first century is unlikely to be a "World Government" in the Orwellian sense that many of us today visualize. It will not be a singular, monolithic structure hierarchically "superior" to states. We do not need world government; we need world governance – the result, not the institution.

"It is more likely to be interglobal than global, an amalgam of agencies, some international, some governmental, nonprofit organizations and volunteers....

"A successful global governance will have its foundations firmly in the Fourth Dimension, connecting banking regulators in Bonn with Washington and Tokyo, refugee workers in Africa with embassies in Helsinki and Brasilia. It will link the

World Bank with its projects in China and Eastern Europe. During regional disasters or wars, the public will be kept informed of global rescue missions via broadcasts by television and radio; parties the world over will coordinate a focused solution. Access to satellite surveillance will also be needed to watch for shifts in crops and land use, and to forecast likely regions of famine....

"How do we get there from here? To some extent, we are already there. We already have a degree of world governance through the General Assembly, the Security Council, the World Court, the World Trade Organization, the International Monetary Fund, the World Bank, the Universal Postal Union, the International Civil Aviation Organization, the International Labor Organization, the High Commissioner for Refugees, the World Health Organization, and on and on – enough to fill a telephone directory....

"We know that global governance will grow because we are increasingly intertwined and need to seek common solutions to common problems. But is the United Nations the right vehicle...?

"Perhaps some outside threat will unite the world: a riotous stampede of humanity from Africa to Europe, a new Great Depression, a rising sea covering Florida and Bangladesh, fundamentalist terrorism, the horrors of nuclear diplomacy, or a new biological warfare agent. Perhaps it will be something else, some unforeseen combination of factors; we don't know precisely. But we do know that the pace of world change makes certain catastrophes inevitable.

"As world globalization looms, some will hold tightly to a known past rather than yield to an unknown future. Indeed, the twenty-first century is likely to see a rise in terrorism, citizen activism, and clandestine militia as the displaced and the nostalgic seek to fight against powerful currents carrying them downstream. Many of the saboteurs of global governance are glued to road maps drawn in the nineteenth and twentieth centuries. Yet others foresee a growing global bureaucracy, excessive world taxes, intrusive policies, and the prospect of world tyranny. And some of them might be right...." (William Knoke, *Bold New World: The Essential Road Map to the Twenty-First Century*, Kodansha America, Inc., New York, NY, 1996, pp. 6, 15-16, 79-81, 83-84, 87, 138-139, 139-140, 144, 145-147, 149, 151-152, 153, 154, 250-251, 253-254, 257, 263-267, 274, 276, 277, 278, 279-280, 280-281.)

The Triumph of Monopoly Capitalism Throughout the World

We are in the midst of a global capital revolution and revolutions spark strong emotions. Just as the French Revolution led to a fundamental transfer of power and economic transformation, so will the global capital revolution. Is the coming of this revolution good news or bad news? The question remains open.

As the market becomes unbound from the constraints of national governments, it is creating the potential for a tidal wave of global capitalism that could drive rapid growth and highly beneficial integration of the world's real economy well into the next century. There is also a somewhat less probable, but nonetheless significant, chance that the power of this market could turn destructive and unleash financial instability and social turmoil such as the world has not seen since the 1920s and 1930s....

...However, it does not matter whether a national government or a political party likes or dislikes the development of such a powerful global market and the loss of direct control of its domestic economy any more than it matters whether a national government likes or dislikes nuclear weapons. The global market, like nuclear weapons, has become a reality that is too big to ignore, and national policy must reflect this reality....

As this market matures, it will drive a fundamental change in the way the economy works and how the nation state's power is exercised....

Even though the integration of the market is still incomplete, its development is unleashing global capitalism in full force and is already spearheading world economic development and the globalization of the world's real economy.

This is change on a scale quite unlike anything we have seen before. In the future, the global capital market will match supply and demand for capital worldwide and in the process, integrate the economies not just of the developed world, but also the Latin American, Chinese, South Asian, Indian, and Russian economies. This market will be so huge, and its level of activity so extensive, that it will increasingly dictate capital movements and thus capital pricing and allocation. In the process, the world economy will work differently and the political systems of nations will be reshaped.

This revolution will be sufficiently powerful to change the traditional roles of governments. The world will move from closed nationally controlled systems toward one open, global system....

The processes underlying this transformation have been at work for a long time. The mobility of capital and the scale of the global capital market have been developing since the early 1970s. Multinational corporations have been undertaking foreign direct investment since the late 1950s. Local corporations have been importing capital and production techniques from abroad for centuries. In particular, the infrastructure to globalize the world economy – from telecommunications, to information technology, to jumbo jets – has been evolving particularly rapidly in the last twenty years. Finally, the long slow process of educating enough people from various nations and cultures with the language capabilities and the skills to globalize the real economy has been underway since the end of World War II....

... [A] national government has no choice but to move forward to embrace the global capital revolution unless it wants to harm its own citizens, its economy, and its own purposes. We cannot go backward. What has been done cannot be undone without truly destructive consequences....

This global capital market can serve us well provided national governments curtail their appetites for debt and shift their viewpoint from operating in a closed, national system to operating in an open, global system....

Moving from a closed, national system to an open global system changes who bears the risk. In a closed, national system, the nation state absorbs much of the risk. Market forces are tempered by regulation and by direct and indirect subsidies. In an open, global system, each participant bears the risk.

Risk absorption by governments has been more pronounced outside the United States. In the typical European country, product market restrictions have historically shielded businesses and labor from competition. Direct and indirect subsidies have helped individual companies compete in world markets despite having lower productivity than nonlocal competitors. Generous unemployment benefits have protected individuals from economic hardship when jobs are lost. However, because these same restrictions and subsidies have led to lower productivity and soaring government deficits, they are unsustainable, and European nations have begun to dismantle them under the increasing pressure from the marketplace.

This process will cause enormous disruption as governments cut entitlements, particularly pensions and health care, and as businesses dependent on government protection must restructure or perish. These changes, in turn, will lead to large job losses and enormous personal dislocation. There will be high levels of volatility in financial markets and uncertainty about the future.

Industry structures will be under constant siege, particularly in Europe and Japan, as nonlocal competitors enter local markets with state-of-the-art production techniques and as local competitors import nonlocal techniques. All participants will be increasingly competing against the best methods of production in the world. The collision between entrenched local players with "deep pockets" and nonlocal players with huge productivity advantages may lead to structurally depressed returns until new, stable, global industry structures emerge.

The resulting turmoil will be the greatest in Europe, Japan, and the developing countries, but even in the United States, we should expect significant social unrest....

Many of the forces driving the global capital revolution have been operating in a more muted form for nearly two decades. The financial press has been writing about "global capital markets" for some 20 years as if they already existed. The

truth is that we are only at a midstage in the market integration process, and it is only now that we find the pace of change accelerating faster than we find comfortable.

This pace will continue to accelerate and we will all have to adapt. But, all of us have a real barrier to making the necessary changes. We are trapped in obsolete mental assumptions about how the world should work because we grew up in a world dominated by nations and their governments. Now, like it or not, we are becoming citizens of the world.... (Lowell Bryan and Diana Farrell, *Market Unbound: Unleashing Global Capitalism*, John Wiley & Sons, Inc.: New York, Chichester, Brisbane, Toronto, Singapore, 1996, pp. 2, 3, 5, 7, 10, 11,12.)

The Global Ideology of Communism Laid the Groundwork for the Rise of the World Economy

For the first time in human history, anything can be made anywhere and sold everywhere. In capitalistic economies that means making each component and performing each activity at the place on the globe where it can be most cheaply done and selling the resulting products or services wherever prices and profits are highest. Minimizing costs and maximizing revenues is what profit maximization, the heart of capitalism, is all about. Sentimental attachment to some geographic part of the world is not part of the system.

Technologically, transportation and communication costs have fallen dramatically and the speed with which both can be done has risen exponentially. This has made possible completely new systems of communications, command, and control within the business sector....

But ideologies were just as important as technologies in the development of a global economy. When the capitalistic global economy began its development in the immediate aftermath of World War II, the new technologies that are now thought to be essential to a global economy did not yet exist. Ideology sent the capitalistic world off in a global direction that was later reinforced by technology.... Technology accelerated the development of today's global economy, but social attitudes and government actions that flowed from those attitudes created the global economy.

The United States in particular with its history of isolationism could easily have become after World War II the modern equivalent of China's Middle Kingdom. It was wealthy; it was militarily dominant; it had the protection of large oceans to the east and west, and large friendly, militarily weak neighbors to the north and south. Economically, it did not need the rest of the world for anything. It would have been easy for the United States to fall back into its historic isolationism....

In the McCarthy era, Americans made communism into an inside threat and during the cold war Americans saw communism as an outside military threat, but

the reality was that communism was never either an inside threat to take over in America or an outside military force that directly threatened to conquer America. There were inside political threats and outside military threats elsewhere in the world (Italy, West Germany, South Korea), but they were only indirect threats to America if America decided it wanted to be the global leader of the anti-Communist military bloc. If it wanted to retreat into isolation, it was not directly threatened by communism. In the end it was probably the indirect threat global communism posed for global capitalism that tipped the balance away from isolationism to internationalism....

The outside threat, communism, was a one-world ideology. It was an ecumenical, not a national event. In Marx's vision a universal Communist ideology would sweep away national politics and create a unified global social system with worldwide egalitarian standards of living. In his eyes nationalism was one of the key enemies of communism. Attachments to nations would have to be crushed and replaced with one-world communism....

In the aftermath of Sputnik when Khrushchev was pounding his shoe on his desk at the United Nations, when the Soviet Union was believed to be economically growing faster than the United States, when China was the model for development in the third world, and when communism had just come to the Western Hemisphere in Cuba, the global threat to capitalism was taken very serious. One-country capitalistic responses clearly weren't good enough. Something global had to be put in place to contain global communism.

While the Communist world did not become a single country, the existence of a competitive ideology preaching a global approach forced the capitalistic economies into a defensive, you-have-to-be-one-to-fight-one global mentality. Worldwide military alliances were needed. Economic growth outside the United States became more important to the United States than economic growth within the United States, since the United States needed wealthy partners who could afford to share the military manpower burdens that were necessary to contain communism more than it needed to raise its already very high standards of living.

Some of the GATT-Bretton Woods system (the World Bank, the International Monetary Fund [IMF], most favored nation [MFN] trading rules) was designed before the Iron Curtain came down, but its eventual shape (a series of trading rounds dismantling tariffs and quotas, U. S. leadership and management, the United States as a global economic locomotive, and an open American market where everyone could sell their goods) was formed in the heat of the cold war. Having America as a large, open, rich market was particularly important, since it is far easier to become rich by selling things to wealthy people than by selling to poor people. Since there was only one large group of rich people on the face of the earth after World War II, access to U. S. markets was a prize worth winning. The United

States could use that ability to grant or deny access to its market to tie people elsewhere in the world into the American system.

If one looks at the countries that have become rich since World War II, all of them have done through a period of time when their exports focused on the American market. In the 1960s, 35 percent of Japan's exports were coming to America and in the 1980's, 48 percent of the Asian dragon's (Hong Kong, Taiwan, South Korea, and Singapore) exports were coming to the United States. China is doing the same in the 1990s. In the last ten years more than 50 percent of its increase in exports have come to the United States.

Although the Marshall Plan was not formally part of the GATT-Bretton Woods system, the same forces brought it into existence. It brought huge amounts of aid to the formerly wealthy war-torn countries that fought World War II. Both old enemies (German, Japan, Italy) and old allies (Great Britain, France, the Netherlands) had to be rapidly rebuilt to preserve capitalism and to allow them to afford to support the large military establishments necessary to contain communism....

With communism dead, the threats that were instrumental in producing a global capitalistic economy are over. But historic paths make a difference. Whether a global economy would have been built without the presence of a Communist threat can be debated, but that debate does not change today's reality that a global economy exists.... A global economy now shapes everyone's view of the world and alters how each of us thinks. Everyone faces a new reality. Everyone is mutually interdependent and linked in very different patterns of supply and demand that might otherwise have existed. Powerful institutions (world banks, multinational firms, international institutions) are in place with a vested interest in maintaining themselves and their environment. Getting rid of the existing world economy would require some painful structural readjustments. (Lester C. Thurow, *The Future of Capitalism: How Today's Economic Forces Shape Tomorrow's World*. New York: Penguin Books, 1997 edition, pp. 115-119. Originally published in 1996.

Participation in the World Economy Will Require a Substantial Forfeiture of National Sovereignty

With the addition of the second world to capitalism and the decision of much of the third world to play the global capitalistic game, the global economy is both bigger and more of a reality than it ever has been.... The existing trading system – the GATT-Bretton Woods system – was designed for the unipolar world that existed in the aftermath of World War II and not today's multipolar world. It will have to be redesigned for the new multipolar realities, including regional trading blocks....

While the world is not negotiating a global common market, the whole world essentially has the same needs to coordinate and harmonize that exist in the European Community. In Europe ideology is pushing economics; in the world, economics is pushing ideology. But whatever the direction of forces, the place to which one gets pushed is the same.

Cooperative policies are needed to make the global economy work, but cooperation will require the surrender of a lot of national sovereignty. A cooperative Keynesian locomotive sharply limits government's freedom to act independently in the economic sphere. Interest rates and budget balances have to be agreed upon collectively for some set of countries. Microeconomic systems of government regulations have to be harmonized. What is required to make cooperation work is not all that different from what is required to make a formal common market work.

To make a global economy work requires giving up a substantial degree of national sovereignty, but the political Left and Right are both correct when they argue that this is undemocratic. It is undemocratic rule by foreigners or, even worse, rule by international bureaucrats.... (Lester C. Thurow, *The Future of Capitalism*, pp. 131, 138.)

Recommended Books On the World Economy

The books reviewed above provide the reader with a unique glimpse into various aspects of the system of global governance that is being developed by a host of influential and powerful individuals and organizations throughout the world. In order to gain a deeper understanding of the global system under construction and the world economy, the reader should consult the above books, however, this recommendation is not an endorsement of the author's viewpoint.

Part II Introduction

1. Global Governance or Global Tyranny?

The financial history of the 20th century reveals that certain influential and powerful figures in the United States, Europe, Asia and elsewhere have been working in concert to create "a world system of financial control in private hands able to dominate the political system of each country and the economy of the world as a whole." (Carroll Quigley, *Tragedy and Hope*, New York: The Macmillan Company, 1966, p. 324.). These self-perpetuating elites have worked diligently to reshape the globe to meet their long-range objectives and goals. Their first attempt at molding the world was the League of Nations. The League was subsequently followed by the United Nations and its myriad of specialized organizations. Both of these organizations failed to truly unite the world and more especially the Western World.

Creation of a Trilateral Super-State

After years of trial and error the elites in New York, Boston, London, Frankfurt, Paris, Tokyo, etc., have begun a major new thrust at world order or global governance. This attempt at uniting the world is structurally quite different from earlier attempts at global governance and is based on a more realistic understanding of the human-nature tendencies of man and of nationalism. The third try at global governance is not an attempt to create a world government. Rather it is an attempt to create a "new Imperial System" under the domination of an elite financial oligarchy from the United States, Europe, Asia and elsewhere. To be more specific it calls for the creation of a trilateral super-state. The U.S. is to merge with the European Community and Japan initially. Later the advanced communist nations, especially Russia and China, will join the new consort of powers. Together this grouping will literally dominate the nations of the earth. At present the merger of the U.S., Japan and the EC is progressing, especially in the economic sphere through the economic summitry process and the increasingly globalization of multinational corporations through mergers, acquisitions and alliances.

National Sovereignty – an Obstacle to Global Governance

For decades the concept of nationalism and national sovereignty have loomed on the horizon as obstacles to global governance. The elites who have been attempting to guide the nations of the earth into a world state have sought to develop numerous ways to break down the formidable barriers of nationalism and national sovereignty.

In the late 1960s the elites in the various power centers of the world decided that it was no longer possible to gently nudge the world toward global governance.

The elites began calling for a strengthening of existing international institutions and the formation of new organizations at the international level. Gradually, these institutions were to be strengthened until they possessed sufficient power to require compliance by the individual nation-states of the world.

Today such organizations as the Organization for Economic Cooperation (OECD) in Paris, the International Monetary Fund (IMF) in Washington, D.C. and the Bank for International Settlements (BIS) in Basle, Switzerland possess enough power to beckon allegiance not only from the smaller nation-states in the Third and Fourth World, but also from the U.S. and the western nations. The concept of national sovereignty has been carefully eroded through a process known as "piecemeal functionalism." Since 1976 a tremendous amount of U.S. political and economic sovereignty has been transferred to the IMF, OECD and other major international institutions.

The Goals of Global Governance

The machinery for global governance began being laid in the early 1900s with the establishment of the League of Nations and the Bank of International Settlements. Basically, it was felt that if the following goals could be accomplished, the likelihood of a global system of governance or a world state before the 21st Century was a definite possibility.

(1) An international banking fraternity dedicated to the objectives of finance capitalism.

(2) A multinational corporation fraternity dedicated to the objectives of monopoly capitalism and corporate socialism.

(3) The establishment of a global economic system based upon the principles of managed or so-called free trade.

(4) The establishment of international institutions with sufficient power to summon compliance from individual nation-states.

(5) The development of a new set of global governing principles.

(6) A world central bank, an international currency and a system of central banks in each nation on earth.

(7) A global network of institutes of international affairs dedicated to promoting global governance.

(8) A network of tax-exempt foundations with sufficient capital to develop, support and promote global objectives.

(9) The development of a global political party dedicated to global governance.

(10) The support for global governance by leading publishing houses, newspapers, magazines, journals, television, cable, telephone, computer, radio, satellite and telecommunications conglomerates in the advanced nations of the world.

With the successful development and implementation of the above goals the elite planners of the United States, Europe, Asia and elsewhere would be very close to accomplishing their long-term objective of a global political, economic and financial system in the private hands.

A World State That Rivals Ancient Rome

The serious observer of international affairs realizes that the foundation for a world state is firmly laid in place today. The building of a world state may be likened to the construction of a large building. It is being built from the bottom up, piece by piece. Even though it looks like a great "booming, buzzing confusion," the architects of global governance have developed detailed blueprints of their future world state. The great aim is the construction of a global political, economic, and financial system or world state that rivals ancient Rome.

Major Actors in Drive for Global Governance

The major actors in the drive for global governance are key international bankers, investment bankers and leaders of giant multinational corporations. The goal of these powerful individuals is to create a global system of financial control in private hands which would enable them to totally dominate the political structure of each nation-state and the economy of the world, including control of the natural resources of the world. The name of the game played by the elite on a global scale is "Power and Gain," an international version of "Monopoly." The competition among elite rivals throughout the world is intense. Even though there is opposing and competing power struggles throughout the globe, they all share the goal of control of the world economy.

For several decades key players in the international banking fraternity and the multinational corporate fraternity from the United States, Europe, Asia and elsewhere have worked hand in hand to create a truly global system which would enable them to expand their influence, control and power. These groups have consistently sought to create a world economic system.

Global Economic System

With the successful development of the Bretton Woods System in 1945, the elite planners were able to solidify and unite the western world or advanced nations

under one economic system. Presently, there are two economic systems in the world: (1) the modified Bretton Woods System and (2) the Communist System. These two systems are currently in the process of being merged together under the dominance of the recently strengthened and modified International Monetary Fund and other international institutions.

In order to create a global economic system, the elites have sought to remove all nationalistic trade barriers by seeking to lower or remove existing tariff barriers. To facilitate the breakdown of the nationalistic or protectionist walls, they established the General Agreement on Tariffs and Trade (GATT). GATT was merged into the World Trade Organization in 1994.

The world is gradually moving towards one economic system under the control and dominance of certain international institutions. These institutions are in turn controlled and dominated by a select group of elite rulers from the international banking and multinational corporate fraternity throughout the U.S., Europe, Asia and elsewhere.

The Working Center of Global Governance

In order to facilitate the development of a "new Imperial System" or world state, the elite planners of the advanced world have developed numerous international organizations. These include the Organization for Economic Cooperation (OECD) in Paris, the Bank for International Settlements (BIS) in Basle, Switzerland, the International Monetary Fund (IMF) in Washington, D.C., the International Bank for Reconstruction and Development (IBRD) in Washington, D.C. and the World Trade Organization (WTO) in Geneva.

These institutions constitute the working center of global governance, at least from a management point of view. Although they are separate organizations, they cooperate closely together and are the heart of the "new Imperial System." The entire Western World and all the nations which participate in the IMF, OECD, BIS, IBRD and WTO adhere to the international rules and regulations drafted by these international regulatory agencies.

Students of international affairs realizes that for the last few years there has been a great effort by the elite planners to strengthen specific international institutions. Numerous articles, pamphlets and books have been dedicated to the need for greater power being placed in certain supranational institutions. For example, the 1980's Project of the Council on Foreign Relations in New York City, the Triangle Papers of the Trilateral Commission in New York City, the efforts of the Commission on Global Governance in Geneva and others have endeavored to frame the debate on strengthening international institutions.

The Philosophical Foundations of Global Governance

In order to guide the nations and people of the world into a state of global governance it was necessary for the elites in New York, London, Paris, Frankfurt, Tokyo, etc., to support a set of political, economic, social and religious philosophies that would advance their long-term objectives. These philosophies included:

- (1) Elitism
- (2) Atheism.
- (3) Pantheism
- (4) Rationalism
- (5) Secularism
- (6) Marxism
- (7) Higher Criticism
- (8) Relativism
- (9) Darwinism
- (10) Uniformitarianism
- (11) Keynesianism
- (12) Freudianism
- (13) Social Darwinism
- (14) Socialism
- (15) Internationalism
- (16) Finance Capitalism
- (17) Monopoly Capitalism
- (18) Corporate Socialism
- (19) Fascism
- (20) Existentialism

- (21) New Ageism
- (22) Nazism
- (23) Hegelism
- (24) Communism
- (25) Legal Positivism
- (26) Civil Law
- (27) Environmentalism
- (28) Machiavellianism
- (29) Materialism
- (30) Consumerism
- (31) Scientism
- (32) Economic Determinism
- (33) Regimentationism
- (34) Hedonism
- (35) Legalism
- (36) Credentialism

These philosophies pave the way for economic, political, financial and social power to be centralized in the hands of a few, carefully selected individuals – the elite financial planners.

A Global Banking System

In order to facilitate the development of a unified banking system throughout the world in private hands it was felt desirable to establish a central bank system in each nation. Today there exists in every nation a central bank which is controlled by private individuals. In the United States, the central bank is known as the Federal Reserve System. The Bank for International Settlements in Basle serves as the coordinating center for this global network. Once a month the leading central bankers from the advanced world meet at Basle to develop joint strategies and programs.

The elite planners are hopeful that the IMF and the BIS can be successfully transformed into a world central bank. It would in essence be a federal reserve system on a global scale. The new world central bank would be able to create, control and eliminate international liquidity. It would also control the activities of all national central banks and act as a lender of last resort to rescue the elite financial oligarchy when their plans fail or they encounter difficulty in various nations such as occurred in 1994 and 1995 in Mexico.

Influential Institutes of Global Governance

It would have been almost impossible to create a consensus on global governance and world order principles if it were not for influential institutes of international affairs in various parts of the world. Today there are over thirty prestigious institutes throughout the western world. These include:

- (1) Trilateral Commission, New York
- (2) Council on Foreign Relations, New York
- (3) Royal Institute of International Affairs, London, England
- (4) Atlantic Institute for International Affairs, Paris, France
- (5) Institute Affaire Internazionali, Rome, Italy
- (6) Australian Institute of International Affairs, Canberra, Australia
- (7) Japan Institute of International Affairs, Tokyo, Japan
- (8) International Institute for Strategic Studies, London, England
- (9) Canadian Institute of International Affairs, Toronto, Canada
- (10) Guyana Institute of International Affairs, Georgetown, Guyana
- (11) Indian Council of World Affairs, New Delhi, India
- (12) New Zealand Institute of International Affairs, Wellington, New Zealand
- (13) Nigerian Institute of International Affairs, Lagos, Nigeria
- (14) Trinidad and Tobago Institute of International Affairs, Trinidad, West Indies
- (15) Centre D'Etudes et de Recherches Internationales de la Fondation Nationale des Sciences Politiques, Paris, France

- (16) Deutsche Gesellschaft für Auswärtige Politik e.V., Bonn, Federal Republic of Germany
- (17) Institut Français des Relations Internationales, Paris, France
- (18) Institut Royal des Relations Internationales, Brussels, Belgium
- (19) Nederlands Genootschap Voor Internationale Zaken, The Hague, Netherlands
- (20) Det Udenrigspolitiske Selskab, Copenhagen, Denmark
- (21) "Österreichische Gesellschaft für Außenpolitik und Internationale Beziehungen, Vienna, Austria
- (22) Institut za Međunarodni Odnosienia i Sotsialistički Integratsia, Sofia, Bulgaria
- (23) The Chinese People's Institute of Foreign Affairs, Peking, China
- (24) Magyar Külügyi Intézet, Budapest, Hungary
- (25) World Affairs Council, Amman, Jordan
- (26) Norwegian Institute of International Affairs, Oslo, Norway
- (27) Pakistan Institute of International Affairs, Karachi, Pakistan
- (28) Polish Institute of International Affairs, Warsaw, Poland
- (29) L'Association de Droit International et de Relations Internationales de la République Socialiste de Roumanie, Bucharest, Romania
- (30) South African Institute of International Affairs, Johannesburg, South Africa
- (31) Utikespolitiska Institutet, Stockholm, Sweden
- (32) The Graduate Institute of International Studies, Geneva, Switzerland
- (33) Institute of World Economy and International Relations, Academy of Sciences of Russia, Moscow, Russia
- (34) Institute of International Politics and Economics, Belgrade, Yugoslavia

These powerful organizations are comprised of the leading elites in each nation or region where they are located. Although separate, these institutions cooperate with each other on many projects, etc.

The Tax-exempt Foundation World

Beginning in the early 1900s in America and at slightly later dates in Europe, there arose huge tax-exempt foundations whose real goals were to promote internationalism and global governance. In America, the Ford, Rockefeller and Carnegie Foundations paved the way for the introduction of the above mentioned principles of global governance. In Europe, the German Marshall Foundation and others lead the way. This was accomplished by the channeling of literally billions of dollars to individuals and organizations which developed, upheld and implemented the goals, philosophies and objectives of the ruling elite whose fortunes they were beholden for support.

A Global Political Party

A global political party was established when the Trilateral Commission was established in July of 1973. Members of the Commission currently occupy important positions in the United States, Europe and Japan.

The Establishment's Media Outlets

The assistance of leading film studios, newspapers, publishing houses, television, cable and radio stations was felt essential if the goal of global governance was ever to be realized. Therefore, it became necessary for the elite planners of the western world to gradually induce the leading owners and figures in major communication outlets to support the objectives outlined previously. Today CBS, NBC, ABC, *Time Magazine*, *The Washington Post*, the *New York Times*, *Foreign Affairs*, etc., constitute the elites' greatest media outlets.

Global Governance or Global Tyranny?

Although many outstanding people have been persuaded that the elite principles of global governance will help to bring about greater international unity and cooperation, or a new civilization, numerous people feel that the entire planet stands on the brink of the greatest tyranny the world has ever seen. If we continue to follow the current philosophies advocated by the elite planners, will it lead to peace and prosperity or will it lead to a loss of freedom, tyranny, bondage, misery, war, oppression, economic chaos, and eventually anarchy on a global scale?

Compartmentalization of Thinking

In the intelligence community information is compartmentalized and restricted to prevent sensitive data, photographs, documents, files, etc., from falling into the

wrong hands. This procedure prevents all but those at the top of the agency from seeing the whole picture. This same type of compartmentalization occurs in nearly all phases of our lives. It applies to the study of law, university studies, medicine, etc. As we proceed through our educational studies and through life we tend to compartmentalize our thoughts and focus on the subject before us. While this is entirely normal, it does prevent us in many cases from seeing the global picture at times.

The Need for a Major Debate on Global Governance

The purpose of this volume is to present an overview of the world management system currently in place and the global community that is emerging along with its future goals and plans in order to stimulate debate concerning its development and implementation. It contains a series of essays and interviews written and conducted over a period of eighteen years.

In order to gain a clearer picture of the emerging global community we will need to traverse the subjects of international finance, international trade, international relations, international organizations, nation-state governance, central banking policies, international educational policies, the world of the large tax-exempt foundations, politics, economics, science, philosophy, social engineering and much more. It is an exciting and highly rewarding adventure, however, the reader may encounter information which will challenge his former worldviews.

Part III The Engineers of Global Governance

2. Multinational Corporate Directors: The Takeover of the World

Part I – Introduction

Three of the most powerful groups on the earth today are international bankers, investment bankers, and multinational corporate directors. For centuries these groups have dominated, to a significant degree, the economic, political and social development of the world. These three groups of individuals have arisen side by side and are now seeking to control the earth and its resources. The large global corporations through monopolistic practices have gradually gained control of every major industry in the world. The international banks have financed the development of these large corporations as well as their own development through similar monopolistic practices. Influential investment bankers sitting on boards of both banks and corporations have through the process of interlocking directorates successfully engineered the construction of what resembles a giant world corporation. The working relationship of these three groups is almost impossible to divide or distinguish. The Rockefeller, Morgan, Rothschild, Warburg, Du Pont, Barings, etc., empires are so large, so complex, and so intertwined that it would not be stretching the imagination too far to describe these economic empires as one large corporation, although legally they are separate. The long range goal of these three interlocking groups of prominent and powerful individuals is "nothing less than to create a world system of financial control in private hands able to dominate the political system of each country and the economy of the world as a whole." (Carroll Quigley, *Tragedy and Hope*, The Macmillan Company, New York, 1966, p. 324.)

The Total Subjection of the Earth

The combined power of these individuals as they operate closely together is tremendous indeed. They created and now control every major international institution in the world. They have effective control over every major industrial nation in the West. They financed the development of Russia and China and continue to subsidize them. They have completely subjugated the Third and Fourth World nations. They control the academic world, the major media and publishing companies, as well as every dominate business on earth. Their long-range goal is total subjugation of the earth, its people and resources. This description almost sounds like an episode out of a James Bond movie, nevertheless, the facts or evidence indicates that these groups are working closely together to achieve the above goal. Their success is unrivaled in the history of the world. Never before have the inhabitants of this earth been placed in a more precarious position. The incredible irony of this world power structure is that very few believe in its existence and even less understand how it operates today. In the remainder of this book, an attempt will be made to provide the reader with an overview of the elite,

global power structure operating on the earth. This section will deal extensively with the multinational corporate directors.

Part II – Managing the World as an Integrated Unit

Richard J. Barnet and Ronald E. Muller, two renowned critics of multinational companies and their influence on today's world, outlined the goals and practices of the global corporations in 1974 when they published a book entitled, *Global Reach: The Power of the Multinational Corporation*. In a chapter entitled, "The World Managers," they noted:

"The men who run the global corporations are the first in history with an organization, technology, money, and ideology to make a credible try at managing the world as an integrated unit. The global visionary of earlier days was either a self-deceiver or a mystic. When Alexander the Great wept by the riverbank because there were no more worlds to conquer, his distress rested on nothing more substantial than the ignorance of his map maker. As the boundaries of the world expanded, a succession of kings, generals, and assorted strong men tried to establish empires of ever more colossal scale, but none succeeded in making a lasting public reality out of private fantasies. The Napoleonic system, Hitler's Thousand-Year Reich, the British Empire, and the Pax Americana left their traces, but none managed to create anything approaching a global organization for administering the planet that could last even a generation.... The global corporation is the first institution in human history dedicated to centralized planning on a world scale...." (*A Touchstone Book*, New York, Simon and Schuster, 1974, pp. 13-14.)

According to Aurelio Peccei, a director of FIAT, the global corporation is "the most powerful agent for internationalization of human society." The world managers view the earth as one economic unit. In their world view the individual nation-state is an obstacle to global planning and administration of the earth, its people and resources. Zbigniew Brzezinski, former Director of the Trilateral Commission, demonstrated this view when he said:

"The old framework of international politics – with their spheres of influence, military alliances between nation-states, the fiction of sovereignty, doctrinal conflicts arising from 19th Century crisis is clearly no longer compatible with reality. The nation-state as a fundamental union of man's organized life has ceased to be the principal creative force; international banks and multinational corporations are acting and planning in terms that are far in advance of the political concepts of the nation-states. (*Boston Herald America*, August 4, 1976.)

The Future of the World Will Be Shaped by Commercial and Financial Figures

Today there are powerful forces operating to bridge the political cleavages which exist in the world. The most important institutional force to gain total

predominance in the days and years ahead is the multinational corporation. In fact, if history is a reliable guide, we can safely predict that the world of the future will continue to be shaped not by diplomats and government officials but by commercial and financial figures. C. M. van Vlierden, former executive vice president of Bank of America, NT & SA, outlined the following scenario in remarks in 1970:

"I am . . . heartened by the economic institutions that are being created and the economic forces operating to bridge the political cleavages. In particular, I am referring to the International Monetary Fund, the World Bank, the International Finance Corporation, the General Agreement on Tariffs and Trade, the multinational corporations, and private international banks. These and other institutions such as regional trade or economic units demonstrate that there is a growing emphasis on certain types of international cooperation along side the reemergence of state nationalism.

"In this environment there is reason to believe that the world of the future will be shaped by commercial and financial statesmen rather than diplomats and politicians. And this means that the world of the future will be built from the bottom up, piece by piece. We may not be able to visualize exactly where we will be by the end of the century, but there is substantial reason for optimism. If we can harness these economic forces with the dynamism created by scientific and technological advances, we could find ourselves riding the crest of a new economic advance. I would remind you that the industrial revolution and the creation of the British Empire... were products of... convergency of economic and social forces....

"The multinational corporation will be the most important new institutional form of the next quarter century.

"In the coming twenty-five years, we can expect a shift from influence by the nation-state to a new and growing influence by private, profit-motivated entrepreneurial organizations and supranational economic institutions which together can surmount present strictures of limited geography or limited (and often unrealistic) political programs of single nation-states. . . . "(New Era for International Banking and Finance," manuscript copy. Bank of America NT & SA, San Francisco, 1970.)

The Strongest Integrating Factor in the World Economy

At another time, C. M. van Vlierden explained:

"The multinational corporation is perhaps the strongest integrating factor in the world economy today. Its role as the primary transmitter of technological innovation is familiar to you all. Anyone with the least notion of what a Eurodollar is realizes that the multinational corporation, together with its banking counterparts, has integrated the money and capital markets of the world to a degree

never before imagined, not even in the heyday of the international gold standard. . . ." ("Prospectives on the Changing World Business Environment," manuscript copy, Bank of America NT & SA, 1973, San Francisco.)

Managing the World

The global corporations over the last two hundred years have gradually evolved into powers more formidable than the nation-state. It is now the institutional mechanism which the elite of the earth plan to utilize to "manage" the world. Jacques G. Maisonrouge, chairman and chief executive officer of the IBM World Trade Europe/Middle East/Africa Corporation outlined this goal as follows:

"Some of us . . . perceive the international company . . . as a prophetic forerunner of a better world. . . . [It is] the engine primarily responsible for powering our global economy.

"It may not be especially insightful to observe that the destinies of nations have become inextricable tied to each other. . . . And if it is still useful to remember that the world we live in is growing smaller all the time, it may also be to the point to recall that astronomers have characterized Earth as a fifth-rate planet revolving around a third-rate star in a second-rate solar system tucked away in a remote corner of the Universe.

"But it is the only world we have and to manage this speck of cosmic dust in such a way that its inhabitants can live decently, with dignity and in peace, each with his fair share of what the world has to offer, is extremely challenging work, worthy of our best efforts. It is my contention that no better tool has yet been devised for realizing these goals than the international company. . . . ("How a Multinational Corporation Appears to Its Managers.", *Global Companies: The Political Economy of World Business*, edited by George W. Ball, Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1975, p. 12.)

Part III – Transformation of the Nation-State

As the world moves into a stage of global planning under global managers the significance of the nation-states will continue to dwindle into the status of "administrative units." Concerning this evolving process, Jacques Maisonrouge noted:

"For business purposes the boundaries that separate one nation from another are no more real than the equator. They are merely convenient demarcations of ethnic, linguistic, and cultural entities. They do not define business requirements or consumer trends. Once management understands and accepts this world economy, its view of the marketplace – and its planning – necessarily expands...." (Richard J. Barnet & Ronald E. Muller, *Global Reach*, p. 14.)

Global Corporations are Transforming the World

The effort of the "international process" brought about by the global corporations is bringing about a tremendous transformation of the world – economically, politically and socially. Professor Joseph Hye outlined the transformation now underway as follows:

"The optimistic view sees the growth of the multinational corporate autonomy as having a profound potential for transforming world politics. . . . As corporations grow in autonomy, they will transform world politics from a contest among states into a broader game with more actors who focus on primarily welfare-oriented goals. Multinational corporations will become a vehicle by which mankind transcends the nation-state, our dominant international institution of the past four centuries. States will not cease to exist, but transnational production units will replace a large part of their role in providing citizen's welfare and will claim a proportionate share of their loyalties. These broadened economic domains will call forth new political institutions that go beyond the nation-state.

The Multinational Corporation is Tying the World Together

"The optimists see the multinational corporation tying the world together in a meaningful way. It shifts industrial production toward the poorer parts of the globe. It transfers technology and managerial resources from advanced to less developed countries. It promotes both regional and global economic integration. *The Economist* of London has predicted, for example, that by the end of the century, most automobile and machinery production will be carried out in less developed countries. As it becomes politically difficult to bring workers from poor countries to jobs in rich countries, multinational corporations will promote global economic integration by taking the jobs to the workers.

"The multinational corporation may also help to erode the great ideological cleavage that divides the world. Already there are more than one thousand agreements between Western corporations and Communist countries. Many of these are simple arrangements for 'turnkey' plants. A multinational corporation builds a plant, turns it over to the Communist government, and is paid out of future production. But a number of Communist countries in Eastern Europe have found that longer term managerial involvement by the multinational corporation is a better way to insure continuous inputs of managerial and technological resources. Now some Eastern European governments have followed this logic a step further and have invested abroad, often in joint ventures with multinationals. Such decisions reflect the view that high growth rates depend on access to world markets and the latest generation of technology. The only way to insure access to both is not merely to be a host country, but to participate fully in the global information systems that provide multinational corporations with many of their advantages. Should this trend continue, it would require ideologists to reinterpret their view of

imperialism as the transfer of labor's surplus value across national borders and raise questions about simple equations of multinational corporations, capitalism, and imperialism.

A New Form of International Organization

"Looking further ahead toward the end of the century, it is possible that the multinational corporation will itself evolve into a new and flexible form of functional international organization. Not only will Eastern European governments participate, but with increasing politicization of the question of control of multinationals in their former home countries, demands may increase for government, labor, or consumer group representation on their management boards. Large segments of world industrial production will be managed by large public and quasi-public multinational corporations as well as a host of smaller private ones. Autonomous management (regardless of ownership) will provide flexibility and efficiency in the reorganization of global production. Questions of public vs. private ownership will have been transcended. Only questions of managerial autonomy vs. democratic control will remain.

"Pessimists share with optimists many of these projections of the future of the corporations, but they see the malign effects prevailing over the benign. The economic benefits of global integration will be unevenly spread and some areas will gain very little. The resulting inequality is likely to breed conflict. Moreover, even if multinational corporations distribute industrial production more evenly about the globe than is now the case, they will tend to centralize strategic decisions in regional coordinating centers and at global corporate headquarters. As Stephen Hymer put it, high level decision-making about what technologies and which areas to develop will be taken in a few key cities in the advanced countries, surrounded by regional sub-capitals, while the rest of the world will be confined 'to lower levels of activity and income, i.e., to the status of towns and villages in a new Imperial System. . . ." (George W. Ball, editor, *Global Companies, the Political Economy of World Business*, Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1975, pp. 162-163.)

Part IV – Integration of the World

From the above quotes it is obvious that a "new Imperial System" is being constructed. The chief architects are influential international bankers, investment bankers, and global corporate directors. The earth will no longer be managed by nation-states or national governments. Instead, it will be governed by the elites who own and control the global companies. The managers of the global corporations will in turn control the international institutions which have been or will be established to maintain the "new Imperial System." The nation-state will be down-sized to an administrative unit and finally phased out of existence altogether if the long range plans of the global elites ever fully materialize. Many a scholar

feels that this scenario is decades or even centuries ahead, however, this is not true. Every nation-state or government on earth is already playing the role of an administrative unit for the global power team which is governing the earth today. Every government in the Third and Fourth World nations, is controlled indirectly by these forces. Russia and China are under the domination of this power structure also. The advanced nations of the Western world have been dominated to the degree that every major or key position, cabinet office, etc., is filled with individuals who are proponents of the developing "new Imperial System."

Powerful Economic Forces Have Been Integrating the World

The earth is now being managed by groups of individuals from the prominent fields of international banking, investment banking, and international business. Powerful economic forces have been integrating the world for decades. Professor Eugene V. Rostow elaborates on this integrating process as follows:

"Through twenty-five years of imaginative cooperation, the bankers, businessmen, trade unions, economists, and governments of Western Europe, North America, and Japan created an economic system of a kind which has been unknown since 1914: a closely unified economy of the industrialized nations. That economy functions as the nucleus of a far-reaching and progressive Western economic order, embracing many smaller industrialized nations, and large parts of the Third World as well. It is rapidly drawing the economies of many communist nations into its orbit.

"The Western economic system is both planned and decentralized: directed, but also flexible. It is planned through the use of fiscal and monetary policies to maintain high levels of demand. And it is decentralized through its reliance on the responses of competitive markets to economic opportunities.

The Economies of Western Europe, North America and Japan are Being Integrated at an Accelerating Rate

"The fundamental economic problem which has emerged in the development of the Western international economy is structural. The economies of Western Europe, North America, and Japan are being integrated at an accelerating rate by irreversible flows of trade, capital, entrepreneurship, tourism, technology, and security expenditures. They have become a single economy in practice. But their economic activities are now more completely and effectively integrated than their institutions for economic control, and particularly their institutions for monetary management. Purely national monetary institutions and policies have lost their capacity to govern the economic relations among the key nations themselves, and their collective relations with many other nations, notably, but not exclusively, with the nations producing oil. The sheer volume of transfers required by the scale and complexity of international economic transactions today makes it impossible to manage monetary policy through a few phone calls and swaps among the central

bankers, and an occasional secret weekend at agreeable country houses in France or Britain. Such methods worked well between 1945 and 1971. They collapsed in 1971 because of human mistakes, and, more fundamentally, because they were no longer adequate to the magnitude of the problem. Strong social and political forces rebelled against constraint. The integrated Western economy lacked a gyroscope. It had become more and more vulnerable.

Structural Weakness of Western Economic System

"This structural weakness of the Western economic system – its failure thus far to establish workable machinery for collective monetary management – is the principal reason why inflation has become so endemic, and so dangerous, even in the relatively stable societies of the industrialized nations.

"We are only beginning to realize how complex an organism a modern economy is, and how difficult it is to predict or control its responses to a given set of changes in the direction and volume of spending. The economic order, as we see only too clearly now, is not a mathematical model governed by a computer." (George Ball, *Global Companies*, pp. 114-116.)

Part V – The Extraordinary Power of the Global Corporations

The impact of global corporations on the earth's governmental systems as well as the people is just beginning to be seriously debated by critics. Political scientists and geopolitical analysts have just recently become aware of the necessity of coupling studies of international finance and business together. Without a study of the "real" moving forces in international affairs, political scientists have failed dramatically in their assessments of political events, governmental systems and the future. In other words, their evaluations, comments, and analysis, have been amiss because they knew almost nothing about international finance and international business which are the key areas for understanding global economics and politics. Political scientists have erred by studying just government figures or policies. These men, no matter how influential they appear, are simply instruments of the global managers.

The Tremendous Power of Global Companies

Richard J. Barnet and Ronald E. Muller pointed out the tremendous power of the multinationals when they noted:

"The rise of the planetary enterprise is producing an organizational revolution as profound in its implications for modern man as the Industrial Revolution and the rise of the nation-state itself. The growth rate of global corporations in recent years is so spectacular that it is now easy to assemble an array of dazzling statistics. If we compare the annual sales of corporations with the gross national product of countries for 1973, we discover that GM is bigger than Switzerland, Pakistan, and

South Africa; that Royal Dutch Shell is bigger than Iran, Venezuela, and Turkey; and that Goodyear Tire is bigger than Saudi Arabia. The average growth rate of the most successful global corporations is two to three times that of most advanced industrial countries, including the United States. It is estimated that global corporations already have more than \$200 billion in physical assets under their control. But size is only one component of power. In international affairs Mao's dictum that political power grows out of the barrel of a gun shocks no one. To those who question power, corporate statesmen like to point out that, like the Pope, they have no divisions at their command. The sources of their extraordinary power are to be found elsewhere – the power to transform the world political economy and in so doing transform the historic role of the nation-state. This power comes not from the barrel of a gun but from control of the means of creating wealth on a worldwide scale. In the process of developing a new world, the managers of firms like GM, IBM, Pepsico, GE, Pfizer, Shell, Volkswagen, Exxon, and a few hundred others are making daily business decisions which have more impact than those of most sovereign governments on where people live; what work, if any, they will do; what they will eat, drink, and wear; what sorts of knowledge schools and universities will encourage; and what kind of society their children will inherit.

The Most Revolutionary Aspect of the Planetary Enterprise

"Indeed, the most revolutionary aspect of the planetary enterprise is not its size but its world view. The managers of the global corporations are seeking to put into practice a theory of human organization that will profoundly alter the nation-state system around which society has been organized for over 400 years. What they are demanding in essence is the right to transcend the nation-state, and in the process, to transform it." (Richard J. Barnet & Ronald E. Muller, *Global Reach*, pp. 15-16.)

The World is Viewed as One Economic Unit

Barnet and Muller outlined the role being played by the global companies and their impact on the nation-state when they said:

"What makes the global corporation unique is that unlike corporations of even a few years ago, it no longer views overseas factories and markets as adjuncts to its home operations. Instead, as Maisonrouge puts it, the global corporation views the world as 'one economic unit.' Basic to this view, he points out, 'is a need to plan, organize, and manage on a global scale.' It is this holistic vision of the earth, in comparison with which 'internationalism' seems parochial indeed, that sets the men who have designed the planetary corporation apart from the generations of traders and international entrepreneurs who preceded them.

The True Power of the Global Corporation

"The power of the global corporation derives from its unique capacity to use finance, technology, and advanced marketing skills to integrate production on a

worldwide scale and thus to realize the ancient capitalist dream of One Great Market. This cosmopolitan vision stands as a direct challenge to traditional nationalism. Indeed, the world's leading corporate managers now see the nation-state, once the midwife of the Industrial Revolution, as the chief obstacle to planetary development. 'The political boundaries of nation-states,' declares William I. Spencer, president of the First National City Corporation, which does business in 90 countries, 'are too narrow and constricted to define the scope and sweep of modern business.' For George Ball the world corporation 'is planning and acting well in advance of the world's political ideas' because it is 'a modern concept, designed to meet modern requirements.'

The Nation-State is a Very Old Fashioned Idea

"The nation-state, unfortunately, 'is a very old-fashioned idea and badly adapted to our present complex world.' A true world economy, says John J. Powers, president of Pfizer, echoing Ball, 'is no idealistic pipe dream but a hard-headed prediction: it is a role into which we are being pushed by the imperatives of our own technology.'

The National State is Obsolete

"Even more blunt an attack on the nation-state comes from Maisonrouge of IBM. 'The world's political structures are completely obsolete. They have not changed in at least a hundred years and are woefully out of tune with technological progress.' The 'critical issue of our time,' says Maisonrouge, is the 'conceptual conflict between the search for global optimization of resources and the independence of nation-states.' Business International warns its corporate clients in a 1967 Research Report: '...the nation state is becoming obsolete: tomorrow ... it will in any meaningful sense be dead – and so will the corporation that remains essentially national.'

An Attack on the Nation-State More Radical Than Anything Proposed by the World Federalists

"A little more than a generation after the withering of the wartime dream of world brotherhood – 'Globaloney,' in Clare Boothe Luce's epitaph for Wendell Willkie's 'One World' – a new breed of globalists have launched an attack on the nation-state more radical than anything proposed by World Federalists, U.N. enthusiasts, or other apostles of 'woolly-headed internationalism' who traditionally cause dismay in boardrooms and country clubs. The men who run the global corporations, aware that ideologies, like crackers, travel well only if skillfully packaged, are putting great energy into marketing a new gospel of peace and plenty, which has more potential to change the face of the earth than even the merchandising miracles that have brought Holiday Inns and Pepsi-Cola bottling plants to Moscow and Pollo Frito Kentucky to Latin America. Jacques Maisonrouge likes to point out that 'Down with Borders,' a revolutionary student

slogan of the 1968 Paris university uprising – in which some of his children were involved – is also a welcome slogan at IBM.

A New Generation of Planetary Visionaries

"The new generation of planetary visionaries, unlike globalists of earlier days, come to their prophetic calling not by way of poetic imagination, transcendental philosophy, or Oriental mysticism but by solid careers in electrical circuitry, soap, mayonnaise, and aspirin. But they proclaim the heavenly city of the global corporation with the zeal of a Savanaarola. For Roy Ash, the former head of Litton Industries, later Nixon's budget director and chief consultant in managerial matters, the world corporation represents a 'transcendental unity.' It is the wave of the future, 'for nothing can stop an idea whose time has come.'

The Vision of a World Without Borders

"Men like Ash know that their vision of a world without borders is the most important product they have to sell, for the extraordinary role they are proposing to play in human affairs challenges what Arnold Toynbee calls 'mankind's major religion, the cult of sovereignty.' What we need, Pfizer's president, John J. Powers, told a business gathering some years ago, is 'philosophers in action' to explain 'the promise of the world corporation.' David Rockefeller, chairman of the Chase Manhattan Bank, calls for a massive public relations campaign to dispel the dangerous 'suspicions' about the corporate giants that lurk in minds not yet able to grasp an idea whose time has come.

A Massive Public Relations to Promote a World Without Borders

"The rhapsodic tone which the new globalists have developed in their celebration of the global corporation as 'the instrument of world development,' 'the only force for peace,' 'the most powerful agent for the internationalization of human society,' or, in the words of Dean Courney Brown of the Columbia Business School, the 'prologue to a new world symphony' is no doubt attributable in part to the salesman's traditional weakness for puffing. But more important, the hard sell of the global corporation, now being promoted in hundreds of industry speeches and industry-sponsored studies and by elaborate lobbying activities, such as that of the Emergency Committee for American Trade, reflects deep and growing customer resistance on many levels.

There Will Be No Integrated World Economy Without a Radical Transformation of the Obsolete Nation-State

"The managers of the global corporations keep telling one another that there can be no integrated world economy without radical transformations in the 'obsolete' nation-state; but however progressive a notion this may be, those who depend on the old-fashioned structures for their careers, livelihood, or inspiration are not

easily convinced. The Executives who run the global corporations have persuaded themselves that they are far ahead of politicians in global planning because political managers are prisoners of geography. As much as the mayor of Minneapolis or Milan or Sao Paulo may aspire to a planetary vision, his career depends upon what happens within his territorial domain. Rulers of nations exhibit a similar parochialism for the same reasons. They are jealous of their sovereign prerogatives and do not wish to share, much less abdicate, decision-making power over what happens within their territory.

The Role of the World Manager

"The new globalists are well aware of the problem. 'Corporations that buy, sell, and produce abroad,' says George Ball, 'do have the power to affect the lives of people and nations in a manner that necessarily challenges the prerogatives and responsibilities of political authority. How can a national government make an economic plan with any confidence if a board of directors meeting 5,000 miles away can be altering its pattern of purchasing and production affect in a major way the country's economic life?' But the World Manager's answer to the charge of being a political usurper is not to deny the extraordinary power he seeks to exercise in human affairs but to rationalize it.

"David Rockefeller has called for a 'crusade for understanding' to explain why global corporations should have freer rein to move goods, capital, and technology around the world without the interference of nation-states; but such a crusade calls for the public relations campaign of the century. Perhaps the logic of One World has never been so apparent to so many, yet the twentieth century is above all the age of nationalism. There has been no idea in history for which greater numbers of human beings have died, and most of the corpses have been added to the heap in this century. The continuing struggle for national identity is the unifying political theme of our time. The imperial architects of Germany, Italy, and Japan; the guerrilla leaders of liberation movements, Tito, Ho, Castro; and those who are still fighting to free Africa from colonial rule have all been sustained by the power of nationalism. 'The nation-state will not wither away,' the chairman of Unilever, one of the earliest and largest world corporations, predicts. A 'positive role' will have to be found for it. . . ." (Barnet and Muller, *Global Reach*, pp. 18-21.)

Part IV – Monopolistic Practices of the Global Corporations

One of the most distinguishing features of the multinational corporations is their monopolistic structure. The global companies have effectively obtained control over the predominate areas of production, financing, and marketing. Barnet and Muller outlined the monopolistic aspects of the global corporations as follows:

"Some observers, such as Professor Howard Perlmutter of the Wharton School, estimate that by 1985, two hundred to three hundred global corporations will control eighty percent of all productive assets of the non-Communist world. Even

the more modest predictions are staggering. Judd Polk, senior economist of the U.S. Chamber of commerce calculates that by the turn of the century a few hundred global companies will own productive assets in excess of \$4 trillion, or about fifty-four percent of everything worth owning for the creation of wealth. . . . (Richard J. Barnet & Ronald E. Muller, *Global Reach*, p. 26.)

The Oligopolistic Competition of the Global Companies

It is not impossible to imagine that by the year 2010 that one hundred or less global corporations will own seventy-five percent of the earth's resources and assets. In twenty-five years or so (c. 2025 A.D.), we might witness total control of the earth by less than fifty corporations. Barnet and Muller explained the interesting process whereby the giant global companies maintain their monopolistic practices:

"In the developed world, the problem is different. There established companies compete for greater shares of a relatively stable market through innovation and advertising. Companies such as the Big Three auto makers, the big television producers, and the big computer makers compete with one another, contrary to the model of perfect competition celebrated in classical economic theory, not by seeking to undercut one another in price, but by means of what economists call Oligopolistic competition. Oligopolies are rather like clubs. (All it takes to be a member is to be of sufficient size.) In any industry a handful of companies compete for ever-larger shares of the market according to certain well-established but unstated rules. The principal rule is that price competition, except on very limited occasions, is an antisocial practice to be strictly avoided, since it threatens to destroy the whole club. Once started, the process of retaliatory price cuts has a way of spiraling out of control. Similarly, the products offered by members are more or less identical; introducing radically new technology is considered unsporting. Thus the essential interchangeability of Fords, Chevrolets, and Plymouths; RCA's, Zeniths and Hitachis.

Admittance to the Oligopolistic Club

"Occasionally, a small company such as the Haloid Company, which invented xerography, will gain admittance to the club by bringing off a significant technological breakthrough. But while the managers of high-technology industries confidently predict new technological revolutions around the corner and like to twit doubters by pointing out that the U.S. Commissioner of Patents resigned in 1883 because there was nothing left to be invented, oligopolists seldom challenge one another to a technology race. Instead they compete in the less volatile arenas of cost cutting (through automation and the removal of factories to low-wage areas) and product differentiation (beating out the competition by means of more attractive and convenient packaging and more arresting advertising). . . .

The Challenge of Global Oligopolies

"The driving force behind Oligopolistic competition is a compulsion toward growth; corporate expansion, which Charles G. Mortimer of General Foods calls 'a law of nature,' is the essential strategy for maintaining or increasing market shares. From the perspective of General Foods, the cry to limit growth from environmentalists, from 'zero-growth' economists, from people who feel crowded on the highways or drowned in goods, is 'unnatural': 'bigness' is 'a great force for good.' Robert W. Johnson, a recent chairman of Johnson & Johnson pharmaceutical, also believes that 'a nation as well as a business that does not grow will go back to the Dark Ages. The price of lethargy is slavery.' Oligopolists cannot seek a comfortable plateau on which to rest. For the management of global oligopolies, the alternatives are to maintain, or preferably to wrest, an ever-larger share of the market from the other club members or to face a vote of no confidence from the stock market.

The Definition of an Oligopoly

"Almost by definition, a company with sufficient resources to integrate its activities on a global scale is an oligopoly. Thus IBM controls about 40 percent of the world computer market. Seven oil companies, known as the 'seven sisters,' control over two-thirds of the world's oil and natural-gas supply; the top three U.S.-based automakers have captured well over 50 percent of the world market. Ford, General Motors, National Biscuit, Du Pont, Dow, Bayer all enjoy an Oligopolistic position in the U.S. market. Each makes literally hundreds of products which only a few other giants can match. In the underdeveloped countries, as we shall see, the Oligopolistic position of a few companies is even more dramatic. In Chile, for example, in the late 1960's 22 global firms controlled over 50 percent of seven crucial industries, and all but three were monopolies or oligopolies. . . ." (Richard J. Barnet and Ronald E. Muller, *Global Reach*, pp. 32-34.)

Part VII – The Corporate Attack on Nationalism

A tremendous integrating process is occurring on the earth. Not only are large corporations swallowing up smaller ones, but the economics of the world are now practically one. East is merging with West, and North with the South. The global companies, as noted before, are the agents and promoters of a single world economy. Barnet and Muller exclaim:

"The global corporation is the ideal instrument for integrating the planet, the world managers contend, because it is the only human organization that has managed to free itself from the bonds of nationalism. . . ." (Richard J. Barnet & Ronald E. Muller, *Global Reach*, p. 56.)

The Elimination of the Nation-State

Since the end of World War I and the failure of the establishment of the League of Nations, there has been a concerted and persistent attack on the concept of nationalism by international bankers, investment bankers, and corporate directors. The elimination of the nation-state and the creation of a single economic unit managed by the global elite power structure has been a long-range goal. Barnett and Muller outlined the corporate attack on nationalism as follows:

"On January 6, 1971, 64 top executives of global corporations, including 38 presidents and chairmen of the board, met in Jamaica under the auspices of Business International 'to consider the subject of corporate response to anti-foreign nationalism.' The confidential discussion paper prepared for this 'Chief Executive Officers Roundtable' gives a revealing picture of how the World Managers see the problem of nationalism and what they propose to do about it. 'International corporations,' the paper begins, 'are losing a battle crucial to their profitability, to their growth, and conceivably to their survival. They are losing it to important segments of society that, since childhood, have been surrounded by notions that a foreigner is to be viewed with suspicion and distrust, that a frontier is sacred, that sovereignty is to be deified and protected with one's life.' Nationalism, Business International warns, is not merely a problem for global corporations in underdeveloped countries: '. . . the truth is that some of the most serious problems for them are created by the governments of the parent companies.'

The Problems of Irrational Nationalism

"The problems of 'irrational nationalism,' as global executives see it, include any local official, law, or tradition that inhibits the free flow of finance capital, technology, and goods on a global scale. A crucial aspect of 'irrational nationalism' is 'differences in psychological and cultural attitudes' that complicate the task of homogenizing the earth into an integrated unit. While the most obvious and expensive nationalist challenges occur when local politicians discover that they have the power to nationalize the oil within their frontiers or even to take over foreign-owned factories and mines, cultural nationalism is also a serious problem because it threatens the concept of the Global Shopping Center. "It is a sad fact of life,' Bank America's President A. W. Clausen laments, 'that there is no such thing as a uniform global market.' National, cultural, and racial differences create 'marketing problems.' Thus, he points out, Helene Curtis had to color its shampoo black to sell it in Thailand. There is no market for deodorants in some Asian countries because 'there is no problem of body odor.' Nestle has to brew over 40 varieties of instant coffee 'to satisfy different national tastes.' National linguistic peculiarities also frustrate worldwide advertising plans. General Motors' 'Body by Fisher,' *Business Week* reports, emerges as 'Corpse by Fisher' in Japanese.

Global Corporations Threaten the Existence of the Nation-State

"The reason there are 'nationalistic obstacles' in the path of the global corporation, the Chief Executives Roundtable concluded, is that 'the international corporation threatens the nation-state's very existence':

"Those who guide the nation-states are fearful that if the world economy is made more efficient and national borders are not allowed to impede the most efficient use of land, capital, labor, ideas, then the nation-state will have no reason to exist.'

"As the corporate executives themselves see it, 'the nation-state has succeeded in attracting from organized religion the basic religious impulses of man.' If the global corporation is to survive it must, in effect, establish its own religion. 'The task of international business is facing its central response to nationalism – educating people that what it is doing is in the interest of every human being, that what it is doing will eliminate hunger and increase the goods and services available to everybody. . . ."

A New Strategy for Dealing with Nationalism

"A strategy for dealing with nationalism has evolved over the last few years. In the late 1960's corporate statesmen and professors were predicting the early demise of the nation-state. More recently, however, managers of global corporations have become more cautious and more diplomatic in discussing the future of the international system. The conclusions of the Chief Executives Roundtable in Jamaica, which reflect a consensus of several dozen of America's top global corporate executives, develop this more subtle approach:

"The nationstate is not withering away. Instead it will grow in terms of its role in organizing and improving the social standing and entire environment of its people . . . By and large, multinational corporations and nation-states have many parallel interests. When tension does occur, accommodation should be accomplished on a case-by-case basis.'

The Frontal Attack on the Nation-State Has Been Replaced by a Subtler Campaign

"Thus the frontal attack on the nation-state has been replaced by a subtler campaign against borders, cultural differences, protectionism, and 'the fears of those people that attack the international corporation [which are] deeply imbedded in their psyches.' As part of the campaign, global corporate executives have vowed to take a more active political role in suggesting a constructive role for nation-states in developing the Global Shopping Center. (Global corporations, the Chief Executives concluded in Jamaica, 'should help developing countries to establish their national identity.') The global corporation must also make a 'huge' effort 'to

educate people who would prefer not to be educated and who so deeply feel that the nation-state is necessary for their happiness....' (Richard J. Barnet & Ronald E. Muller, *Global Reach*, pp. 57-60.)

Part VIII – The Socialist Nature of the New Imperial System

The global elite are attempting to "manage" the world as a single integrated economic unit. Since the world is composed of numerous nation-states and thus numerous economies, it is necessary for the global managers of the large corporations to attempt to remold the world to fit their preconceived "new Imperial System." Unfortunately, this system consists of leveling all national governments and transforming them into administrative units. It means converging the East with the West and the North with the South. Converging the capitalist countries with communist and lower-developed countries is not an easy assignment. That is why we are witnessing so many wars today between the forces of internationalism and nationalism.

The Evolving Vision of the Global Community

Barnet and Muller outlined the socialist nature of the "new Imperial System" which is evolving in these words:

". . . This is an age of planning, and the new globalists are the only ones with the pretension, skill, and resources to plan on a global scale. This is the age of technology, and they control most of it. This is the age of meritocracy, and the power of the World Managers comes not only from what they own but, they argue, even more from what they know. . . .

"The World Managers have an evolving vision of what constitutes the good state in the era of the Global Shopping Center. . . . The World Manager's model of the Twenty-first Century State fulfills certain specific functions: it is a protector of the free movement of capital and goods; a regulator and educator of the labor market; a balance of the private economy; a consensus builder able at least to ameliorate correctable injustices through transfer payments – i.e., social security, unemployment insurance, etc. – and a pacifier prepared to deal with the social effects of uncorrectable injustices, with force; a custodian of the national environment ready to maintain all aspects of social infrastructure essential to a good business climate. . . .

Socialism is a Big Help to World Managers

"The World Managers are prepared to do business with 'revolutionary' governments when they are firmly in the saddle. (Indeed, as one corporate strategist told us, socialism, far from being 'the end of the world,' is a 'big help' because it ensures 'stability' in large areas of the world. Planners in more than one

U.S.-based company are eyeing the docile labor force of Eastern Europe. . . ." (Richard J. Barnet & Ronald E. Muller, *Global Reach*, pp. 65-66, 93-34.)

Earth, Inc.

It is apparent from the history of East-West trade that global planners of the giant corporations favor socialism and communism. They financed the early development of the Soviet Union and China and have supported them since their inception. The cost of insuring "stability" involves the sacrifice of millions of lives and the maintenance of a great police state where real freedom is non-existent. The above quote merely documents what corporate actions for the last ninety years attest. The large corporations are based upon central economic planning of every phase of production and marketing. Russia and China are also based upon total monopolistic practices. In one sense China and Russia are great corporations which seek to control everything and everyone, although the new republics in Russia are trying desperately to gain their freedom and independence. The World Mangers want total monopoly control of the earth, its resources, wealth and people. It is not too outlandish to call their "new Imperial System," Earth, Inc. Through the concept of interlocking directorates it is now possible to document that less than 500 hundred men have gained a controlling interest in all the major corporations of the world.

Part IX – The Convergence of East and West

Many people feel that the era of convergence theories is no longer in force. A survey of the practices of international finance and business reveal a different story. Barnet and Muller outline the convergence of East and West as follows:

"The best way to ensure that the Soviet Union and China do not disturb the vision of a Global Shopping Center is to include them in it. Some corporate executives talk of building a 'belt of capitalism' which will tie the U.S.S.R. and China into an integrated global system. They count on increasing Soviet dependence on foreign technology and spare parts to moderate any remaining revolutionary zeal. 'I think getting General Electric into China and the Soviet Union,' a GE long-range strategist told us, 'is the biggest thing we can do for world peace.' Competition among nations will be waged with economic weapons instead of missiles, U-2's and proxy wars. In short, the corporate managers hope to usher in the era of peaceful coexistence advocated so long ago by Henry Wallace and Nikita Khurshchev. . . ."

The New Map of the World

"Nixon's map of the world, which bears little resemblance to the one that John Kennedy and Lyndon Johnson once used, is quite consistent with recent corporate thinking on how to achieve world stability. The J. Edgar Hoover view of the Soviet Union has been rejected. The Kremlin is made up not of international conspirators,

but of pragmatic managers far more interested in securing their borders, developing their own consumer economy, and controlling their own population than in making revolutions in other countries. There is also a new, more relaxed view of how to handle underdeveloped societies. Guerrilla leaders are no longer seen in the simplistic terms of the Kennedy-Johnson era, when they were thought to be puppets on a long string from Moscow. (In the Truman Administration, it will be recalled, Mao was believed to be Stalin's agent.) The 2 billion people who live in Asia, Africa, and Latin America are not, Che Guevara and Lyndon Johnson notwithstanding, about to rise up and take America's wealth. They are hungry, divided, and vulnerable, and all the more so because the U.S.-Soviet detente makes it harder for small countries to play one giant off against another. Most Asian, African, and Latin American governments are in the hands of military dictatorships, rightist regimes, or technocratic modernizers, all eager for U.S. military aid, loans, and private capital, despite their growing insistence upon better terms. Many of the 'unstable,' 'romantic' revolutionary leaders who used to upset Walt Rostow so much—Sukarna, Nasser, Nkrumah — are gone, replaced by men more willing to cooperate with the corporations.

The Basic Philosophy of the Global Companies

"Ideological purity and national pride, which were at the heart of the old Cold War strategies, are now seen in corporate boardrooms as carrying too high a price tag. 'National differences should not be allowed to keep the people from doing whatever it is in their mutual interest do,' says Henry Ford II. 'This is the basic philosophy behind the multinational corporations and the world will be better when this same philosophy gains wider acceptance in other aspects of human behavior.' By mid-1973, U.S. and West European companies had entered into more than 1,200 cooperative agreements with state agencies of what in chillier days were known around Washington as 'Bloc governments.' Some take the form of 'co-production,' in which the Polish (or Hungarian or Soviet) government supplies the plant and the U.S. company supplies the equipment and know-how for the manufacture of goods destined primarily for the East European market. Singer, for example, operates a plant in Radom, Poland, to produce sewing machines under the Singer name for sale in the countries of Comecon (the Soviet version of the Common Market). The German-based global firm Siemens is producing X-ray machines in Hungary and buying telephone equipment from Bulgarian state-owned plants. East-West co-operative agreements take a wide variety of forms such as licensing, joint R&D programs, etc., all designed to accommodate the socialist doctrine of state ownership and the capitalist doctrine of private enrichment. Once it became obvious to top corporate managers that nothing short of a suicidal war would dislodge the Communist rulers in Moscow and Peking, it followed that peace-mongering was good business.

A New Role for the U.S. Military

"But the most avid advocates of East-West trade are quite aware of the distinction between peacemongering and pacifism. They believe that U.S. military power still has a crucial role to play in promoting world stability, but they believe that this power must be exercised differently – more subtly and less expensively. As in a well-run town where the police are always there but not too much in evidence, the Global Shopping Center is kept at peace by a powerful, unobtrusive, and where possible, multinational constabulary. Since Asian soldiers, according to Pentagon statistics, cost only one-fifteenth of what is spent on their American counterparts, and neither they nor their parents vote in U.S. elections, the use of 'indigenous troops' around the world to keep order makes both fiscal and political sense. The Nixon Administration budget reflects this understanding. Vietnamization is now a worldwide policy. Local troops are hired with American tax dollars to carry out the police function once performed by U.S. soldiers." (Richard J. Barnet & Ronald E. Muller, *Global Reach*, pp. 96-99.)

The U.S. Military Paves the Way for Global Companies

The above quote demonstrates how effectively the global corporations dominate and use such governments as the executive branch of the United States Government. The state, treasury and defense departments, as well as the CIA and the National Security Council, are instruments of the global planners to further their long range plans on the earth and to maintain or protect the international systems they have created. Barnet and Muller outlined this strategy as follows:

"The readier the Pentagon and CIA were to bring down or raise up governments in underdeveloped countries, the better the investment climate for U.S. corporations. U.S. military power was used to establish the ground rules within which American business could operate. The U.S. Government acted as consultant for rightist coups in Bolivia, Brazil, Chile, Greece, and Indonesia, and their generals opened their countries to U.S. investment on the most favorable terms. Whenever the flag has been planted around the world, in some 500 major military and naval bases and in the command posts of over a dozen military interventions, U.S. corporations have moved in. The construction of a worldwide military empire has been good business. Subsidized by public funds, U.S. companies have built roads, harbors, airports, hotels, and banks around the globe. The military budget is perhaps the best example of the compatibility of patriotism and profits. During the cold War the Department of Defense has had \$40 billion to \$50 billion a year to distribute to U.S. corporations through procurement contracts. With \$6 billion a year to spend on research, much of which went to finance development costs of civilian products like the Boeing 707, the Pentagon has been a major subsidizer of some of the largest U.S. corporations. When electronics and aircraft companies used to take full-page advertisements in newspapers and magazines to warn of the Soviet menace, they were, as they saw it, responding to a patriotic duty and a

business opportunity simultaneously. . . . (Richard J. Barnet & Ronald E. Muller, *Global Reach*, p. 79.)

A Series of Reformations Pave the Way for a Global Economy

The World Managers have a set of long-range goals in mind for the earth that startle the average citizen in the world. Barnet and Muller outlined a number of the ideological and institutional reforms sought by the elite leaders of the giant corporations as follows:

". . . The World Managers have larger, but vaguer, visions of the kind of world they would like to see. Much of what they call their 'educational effort' is devoted to these visions. Calling themselves radicals, they see the need for a series of reformations to make possible the peaceful transition to a global economy: a reformation in public attitudes, a reformation in national structures, and a reformation of the ground rules under which global business is conducted.

A Public Relations Campaign to Promote the Global Corporations

"We have already talked about the kind of public attitudes the global corporations would like to encourage – more corporate loyalty, more product loyalty, and less national loyalty. In short, they want to build a faith that the corporation is the principal engine of progress and peace. It is standard rhetoric that the existing political structures are obsolete, but the alternative political vision is rather murky. Like most reformers, they know better what they are against than what they are for. Nonetheless, by reading enough speeches, testimony, and interviews it is possible to catch a fleeting glimpses of the new America that the World Managers would like to see.

Corporate Socialism – A New Partnership Between Business and Government

"When the United States is fully integrated into the Global Shopping Center, the Federal Government will limit its interventions into society to those tasks which are beyond the capacity of businessmen. Confident that the automatic processes of the market, provided these are regularly oiled with the latest managerial techniques, can solve most of the problems of the poor countries as well as the rich ones, the World managers nevertheless see an expanding role for government. James P. McFarland, chairman of General Mills, talking about 'The Corporation in 1990' at a White House Conference in 1972, echoed an increasingly familiar theme among businessmen: a call for 'a genuine government – business partnership.' In 1990, 'government and business and labor – and in fact all elements of society – should be sitting down to plan the future, to establish national priorities and to agree upon objectives and strategy.' The managerial task, says McFarland, is 'the development of a national climate that will allow the orderly transition to a corporate structure able to meet tomorrow's challenge.'

The Government No Longer plays Its Role under the Constitution

"Since the corporation is the primary engine of development, the primary function of government is to enable the corporation to fulfill its promise. In the corporate vision of 1990, government no longer plays its traditional role under the Constitution. It is no longer the expression of national consensus – which, indeed, is worked out by means of a government – corporation-labor partnership.

The New Role of Government

"The real job of government is to perform certain services essential to the development of a good business climate. Most important is the management of the economy. It is the function of government to stabilize the economy – to stimulate or to cool the economy as needed whenever the natural regulating mechanisms of the market fail to work (which seems to be much of the time). The Federal Government, always in partnership with business, should control interest rates and other credit policy. When necessary, it should impose price controls and wage controls. All of us 'will be asked to give up some of the prerogatives we have taken for granted,' says McFarland. Government will continue to act as a pump primer of capital into the economy, through either the military budget or social programs. (At present the Department of Defense finances over one-half of all research-and-development costs in the U.S., including 90 percent of that done in the aviation and space industries.)

Developing the Needed Infrastructure for a Global Economy

"The second essential service is to develop the needed infrastructure for a global economy. In addition to the usual infrastructure expenses such as highways, harbors, communications networks, and shipping are environmental expenses. A constant theme in World Mangers' speeches is that the government should pick up the cost not only of decontaminating the nation's already polluted air, rivers, and lakes but also of converting the industrial process so that the rate of new pollution will be slowed. Similarly, the cost of safety measures for consumers and workers should be subsidized with public money.

Smoothing the Transformations of the U.S. Economy

"Government has a third function to play in smoothing the extraordinary transformation that global corporations are bringing about in the U.S. economy. Since economic logic argues for the relocation of U.S. production overseas, it is the task of government to subsidize, retrain, or move workers who are displaced in the process. Similarly, government should not try to protect inefficient noncompetitive industries such as shoes or textiles which cannot survive in a world without borders, but should rather assist them to become more competitive, or help reallocate their resources into new industries.

Bringing About a World Without Borders

"The nation-state has a crucial role in bringing about the world without borders. Only governments can abolish restrictions on the movement of goods and capital and make use of economic weapons such as quotas, tariffs, and taxes to ensure favorable treatment of U.S.-based global corporations in other countries.

A Stronger Executive and a Weaker Congress

"Thus it is the increasingly complex task of government to pursue an aggressive (and often contradictory) foreign economic policy making use of both liberalization and protectionism. Only a centralized government in which the president enjoys great discretion to employ one or the other policy can play such a delicate balancing role. Thus an important part of the new managerial vision of the new America is a stronger centralized Executive and a relatively weaker Congress.

Government is to Promote Institutional Change

"Finally, the task of government is to be an educator and promoter of values and certain forms of institutional change. McFarland foresees a 'dramatically different' employer-employee relationship in 1990: more social pressure on corporations to expand services and benefits to employees along the paternalistic model of Japanese industry – day-care centers, corporate sabbaticals, etc. But all this must take place within the context of the private-profit system. Government must expand its priestly function as guardian of the ideology of the private-enterprise system. 'The kind of structure we will have in 1990,' McFarland concludes, 'depends in good measure upon our ability between now and then to redefine capitalism in a manner which is understood and believed. . . .' (Richard J. Barnet & Ronald E. Muller, *Global Reach*, pp. 110-113.)

Part X – The Development of Global Cities

The above remarks and quotes demonstrate that a new corporate structure for managing the earth has been slowly evolving for decades. Hundreds of millions of dollars have been spent by the giant corporations to remold public attitudes toward acceptance of "central economic planning, socialism, corporate socialism, finance capitalism, monopoly capitalism and international institutions based upon civil law principles." One transformation which is occurring is the development of the concept of global cities. Barnet and Muller note:

"A clearer picture of the sort of political reformation global corporations have in mind can be gleaned from a recent piece of contract futurology on making Paris a 'global city,' prepared for a French Government planning agency by Howard V. Perlmutter and Hasan Ozbekhan of the Wharton School of Finance Worldwide Institutions Program. Professor Perlmutter, a consultant to a number of global corporations, was presumably being paid for his knowledge of the needs and

preferences of the global corporations. Thus while his 'Scenario A,' which describes the 'necessary infrastructures if Paris is to fulfill its vocation as a World Center,' undoubtedly represents more advanced thinking than is typically done in corporate boardrooms, it is indicative of a direction which many executives themselves find congenial. He begins by pointing out that '. . . those cities that understand what infrastructures are needed . . . as the Global Industrial System (GIS) evolves . . . will become the "global cities" of the 1980's.' To become a global city, Paris must undergo a process of 'denationalization' and 'become less French.' This requires a 'psycho-cultural (or attitudinal) change of image . . . with respect to the traditional impression of "xenophobia" that the French seem to exude.' As this cannot be done directly, it is felt that it might be achieved by greater exposure of the population to other cultures, other languages, other ways of doing things and ways of being right. Perlmutter, a professor of social architecture, advocates 'the globalization of cultural events,' such as supranational rock festivals, as an antidote to 'overly national and sometimes nationalistic' culture.

A Change in the French Capital

"The most radical recommendation is that Paris cease to be the capital of France. Continuing its present role would make the city too 'ethnocentric' to be a Global City. Orleans is to be the new 'administrative capital of the French space.' The 'highest levels of the French government remain in Paris' (i.e., external and fiscal functions), but the administrative structure is moved elsewhere. Thus 'the structure, outlook, and influence of the French government is *global* rather than purely French' and involves responsibilities which clearly transcend the traditional French space.'

Life in a Global City

"In the Global City no one is a foreigner. Non-French executives of global corporations living in Paris should be able to vote for a Council of Paris and even be elected to membership. The Global City would, of course, have all the necessary infrastructure – deluxe hotels, conference centers, a telecommunications network much better than Paris' present notorious telephone system, a University of the World, and a financial center.' The reformed Paris would feature two types of living arrangements for global executives. One would be located in the heart of the city to cater to those executives 'concerned with culture, entertainment, urban vitality,' while the other would be for the more 'family-oriented.' It would be in a country setting featuring good air, trees, silence, good schools, and 'stress-reducing facilities for cultural-shock cases.' Paris, the authors conclude, can become a 'vital locus of planetized consciousness. . . ." (Richard J. Barnet & Ronald E. Muller, *Global Reach*, pp. 113-114.)

Part XI – Molding the World Educational System

A key ingredient for construction of a "new Imperial System" on the earth is control of the educational system and intellectual world. Of course, the giant tax-exempt foundations such as Ford, Carnegie, and Rockefeller, have been in the forefront of controlling and reprogramming the educational system of not only the United States but the entire world. Barnett and Muller explain:

"A prime target in the campaign to reform political institutions is the university. In the United States, under the stimulus of the Vietnam War some campuses became centers of radical questioning of some of the basic assumptions of America's business-oriented culture. Here too were centers of anticorporate demonstrations and propaganda, dramatic testimony in the era of growing government-business partnership that the university is the last remaining respectable institution with a degree of independence. Indeed, the original campus revolt of the 1960's, the Berkeley Free Speech Movement, was in important measure a reaction to Clark Kerr's vision of the 'multiversity,' which the students saw as a servant university for a totally integrated corporate society. It is precisely this tradition of independence in the academy that now worries some executives, for they see the university as the institution spawning, protecting, and advancing the countercorporate culture....

Universities are Dependent upon Private Capital

"As Thorstein Veblen demonstrated many years ago, universities that depend upon private capital for their survival are dependent upon capitalists. True, there are examples of a few conservative philanthropists showering money on academic centers that employ radicals and critics. Some businessmen have deeply believed the American ideology of free speech and free inquiry. But in moments of crisis, business liberalism tends to become shaky. During the 'Red scare' of the 1920's and the Cold War of the 1950's, moneygivers, business alumni, and trustees, as might be expected, exerted their influence in such a way as to make the university conform to the prevailing mood and mores of the country.

A Threat to Global Vision of the World Managers

"The worldwide student revolution that reached its peak in 1968 was spontaneous, unrelated, but remarkably similar protests in the United States, France, Germany, and Mexico was a source of great anxiety for the World Managers. Since the crucial factors in the success of the Global Factory and the Global Shopping Center are technology and managerial skill, and universities are the traditional suppliers of both, the politicization of the university is a potentially serious threat to their global vision.

"In some underdeveloped countries, particularly in parts of Latin America, the university has been the center of the two ideologies that most complicate the life of

global corporations there: nationalism and socialism. Universities have a certain tradition of independence from and antagonism to the local government, and vocal expressions of hostility to all forms of 'yanqui imperialism' are standard. In Mexico, for example, foreign companies are worried that university disorders, which represent virtually the only organized political dissent in the country, might spark a wider revolutionary response. (The government, it is generally believed, blocked the extension of Mexico City's superb subway to the university for fear that the students would attempt to paralyze the system.)

Attacking Politicized University and Unpalatable Professors

"Thus foreign companies are openly counterattacking against politicized universities and politically unpalatable professors. In February 1970, for example, the new British university at Warwick, whose vice-chancellor, J. B. Butterworth, boasted 'that he would create a university tailored to the needs of an industrial society,' received a confidential report from the director of legal affairs of the Rootes Organization, Chrysler's British subsidiary, on the political activities of a visiting American professor named Montgomery. In Mexico the rector of the University of Queretaro, Hugo Gutierrez, was summarily dismissed in 1965 two months after an exchange with the local manager of Coca-Cola and head of the chamber of commerce, who wanted a certain professor dispatched on a prolonged research trip because he had 'funny ideas.' The rector, an ex-actor, replied that he was concerned about the 'funny ideas' of the Coca-Cola public relations department, but no one saw the humor, and the governor of the state fired him. (The rector had also encouraged a university study entitled 'Who Owns Queretaro?' which did nothing to enhance his popularity with local politicians, U.S. corporations, or the Catholic Church.)

The University Will Have to Come to Terms With the Conflict Between Democratic Principles and Effective Government

"But most corporate influence on universities is exerted in more civilized ways. Hugh Stephenson of the London *Times* has given an interesting description of the University of Warwick, which has a Barclay's Bank Chair of Management Information Systems, a Volkswagen Chair of German, and a British Leyland Motors – endowed Chair of Industrial Relations. The university has done research on metal fatigue of direct interest to Massey-Ferguson, on tire fatigue of interest to Dunlop, and on vehicle instrumentation of interest to Chrysler. (The chief executive of British Chrysler is on the university's governing board.) The University Council in 1968 hired a firm of industrial consultants to make the university more efficient. (One of the recommendations was that since university democracy was 'an amorphous and time-wasting system' the university would have to 'come to terms with the age-old conflict between democratic principles and effective government....')

Developing Nonideological and Technically Oriented Centers of Learning

"Admittedly, the University of Warwick is not a typical university. But in many countries where they have operations the World Managers are seeking to exert influence on more traditional centers of learning. In Queretaro University, for example, according to Hugo Gutierrez, Purina, Singer, Kellogg, Carnation and other companies each contributed less than \$5,000 a year in the mid-1960's, for which they had a crucial voice in university policy. Elsewhere in Mexico, private universities, such as the University of the Americas and Anahuac University, have received important gifts from U.S. companies. Chase Manhattan donated to the Anahuac Law School. Eastman Kodak has given a laboratory to the same institution. The advantages to the global corporations are rather clear. Not only do they buy a certain amount of local goodwill and show 'social responsibility,' but they also help ensure the development of nonideological, technically oriented centers of learning where research of interest to the companies can be done and an apolitical, value-free, nonactivist, achievement-oriented study body can be trained.

The Model for a New University

"The model for such universities is now being developed by a variety of corporate planners and consultants. Howard Perlmutter, for example, is designing a University of the World, which, he says, is an 'essential' component of the Global Shopping Center. It would develop a global outlook and would provide a uniform worldwide curriculum for the children of the World Managers. (This sort of service appears essential for the growing army of footloose executives. The manager of Nestle's U.S. operations, a Swiss citizen, recently returned to Switzerland to take over as a world director of the company only to discover that his son could not get into a Swiss university because none would give him credit for his work in a New York high school.) In Professor Perlmutter's scenario on how to make the French capital a 'global city,' he proposes establishing there 'a truly nonrational learning center . . . whose main purpose would be research, learning and teaching in how to develop global resources – industrial, commercial, agricultural, social, and cultural.'

The New University of the World

"The University of the World is to be supranational, technical, and practical. 'The U of W becomes an active partner in, and an innovative contributor to, the work of the "real" world,' Professors Perlmutter and Ozbekhan advise their Parisian clients. Students, for example, will have 'on the job' training in such important academic pursuits as police work. The following is a complete list of proposed departments for the University of the World:

HEALTH ENVIRONMENTAL ECONOMICS
POPULATION CONTROL WASTE DISPOSAL

EDUCATION COMMERCE-INDUSTRY
CRIMINOLOGY AGRICULTURE
LAW ENFORCEMENT MINING
FIRE PROTECTION LOCAL AND STATE GOVERNMENT
ECOLOGY ADMINISTRATION

A New World Curriculum to be Disseminated in Every Country

"The political implications of a world curriculum that could be disseminated by television in every country are obvious. The power, authority, and prestige of national universities would be undercut. Who would not rather stay at home by the TV and get an MIT diploma, an elite passport to the outside world, than study his own national traditions and local problems at, say, the University of Nairobi? The global-university curriculum would be geared to the needs of the 'real world' – i.e., the emerging Global Shopping Center. Criticism of the underlying values and assumptions of the society would be muted. Doubt, searching for alternative visions, and other inefficient intellectual activities would be discouraged. (Perlmutter and Ozbekhan see the 'ideological turmoil' of the present Paris educational system as creating 'a real diffusion as to the intellectual direction of instruction.

A Worldwide Educational Reformation to Justify the New Global Community

"A long-range strategist for a major U.S.-based electronics company is advising the Brazilian Minister of Education on how to make the University of Sao Paulo 'less liberal in an emotional sense' and 'more responsive to the needs of industry.....' In short, the worldwide educational reformation envisaged by the World Managers is designed to integrate and rationalize the global production of commercially useful knowledge." (Richard J. Barnet & Ronald E. Muller, *Global Reach*, pp. 114-118.)

Part XII – Creating a Global System of Governance

The "new Imperial System" under construction today has been in the planning and development stage for many decades. Barnet and Muller outline that the global managers want a world political and economic organization to supersede governance by the nation-states:

"The heart of the legitimacy problem for the global corporation is the class between global corporate loyalty and national law.

"Wherever global corporations encounter image crises, some local law or custom has usually been violated, at least in spirit, whether it be tax laws,

currency-control laws, or some important tradition: e.g., the State Department, not ITT, is supposed to set foreign policy. It is evident that governments are losing control over important international transactions and that nominally private organizations are gaining control over such transactions. The ancient political question *By What Right?* keeps plaguing the global corporations as they become more assertive in acting like states. Their justification for their power, as we have seen, is efficiency; 'We can deliver' is their political slogan.

International Chartering of Global Corporations

"But the World Managers know that neither slogans nor 'educational campaigns' are enough to legitimize the exercise of political power. Authority must be sanctified by law. Thus men like George Ball have been talking for many years about international chartering of global corporations by some world organization. (While some World Managers have speculated about the United Nations' playing such a role, and the thought of being regulated by an U Thant or some other mild international civil servant with a modest budget has certain attractions, most global corporations are not enthusiastic about the United Nations as the source of international corporate authority because of the large representation of underdeveloped countries which are 'lacking in business experience.' They would rather have organizations dominated by industrial countries, such as the Organization for Economic Cooperation and development, do the regulating.)

A Global Governmental Counterpart to the Global Company

"Jacques Maisonrouge wants an international governmental counterpart to the global corporation, a tripartite entity made up of labor, government, and company representation, which would set the new ground rules under which the companies would operate. The International Chamber of commerce has proposed the adoption of international guidelines for regulation of the behavior of corporations and governments, and the Atlantic Institute, among others, sees a possible solution to the legitimacy problem in a 'code of good behavior' to which all World managers would faithfully subscribe.

A Reformation of the Global Corporation

"David Rockefeller believes that the reformation must include the global corporations themselves. Stock ownership must become more truly multinational. Profit-sharing schemes and other incentives to give a 'stake' in global enterprises to foreign workers should be expanded. Corporate executives should do more self-examination to determine whether they are really being as 'socially responsible' as they should be. Corporations should take steps to 'remove the air of mystery which sometimes surrounds them,' advises the Atlantic Institute. Other executives have put it more bluntly. Corporations have a reputation for secretiveness which does nothing to build public confidence. (The reputation is understandable, since corporations spend millions of dollars in legal fees each year to keep what they

regard as their business – i.e., how much money they are really making – from the prying eyes of labor unions, consumer groups, minority shareholders, and the Internal Revenue Service.)

The World Mangers Are Orchestrating a Great Crusade

"The World Mangers who are orchestrating the Great Crusade bear little resemblance in style to the entrepreneur of fifty years ago. Gone is the 'Public Be Damned' arrogance of the Vanderbilts and the other robber barons. In its place is a liberal vision of a world corporate society promising peace and abundance. Behind the advertising and public relations campaigns is genuine ideological fervor – and creeping doubts. The World Managers, at least the ones with whom we have talked, believe that they have as good an answer to the problems of mankind as anyone. At the same time, they sense that convincing the world of this is a staggering task. Yet every failure of government, from torture in Brazil to Soviet anti-Semitism to the Watergate scandal, strengthens their conviction that they have a historic mandate to create a postpolitical world order." (Richard J. Barnet & Ronald E. Muller, *Global Reach*, pp. 118-120.)

Part XIII – The Transformation of America

The global corporations have transformed America from a debt-free, prosperous, hard-working nation with a system of limited government into a debt-ridden, secular society with a centralized government. Political power is now in the hands of professional politicians who are beholden to the elite financial oligarchy controlling America. Barnet and Muller outlined the transformation wrought by the giant corporations and its impact on America as follows:

"At a particularly tense moment in the Watergate crisis, the veteran White House correspondent of *Time* magazine archly referred to the United States as a banana republic. Indeed, the constitutional crises provoked when the President is investigated to determine whether he is committing high crimes in office or the Vice-President is forced to resign for pettier crimes committed in a lesser office are more reminiscent of Latin America than what has generally been thought to be the world's most stable political system. Such parallels can be overdone. They hysterical political metaphor is not a substitute for analysis. The United States is not 'becoming' another Brazil any more than it is 'becoming' another Nazi Germany or Soviet Union, despite dire predictions from the left and the right. Nevertheless, it is now possible to discern certain structural changes in the United States which are causing the world's richest nation to take on some of the aspects of an underdeveloped country. Some of these changes are directly related to the rise of the global corporation.

The Impact of the Global Corporation on America

"To understand the impact of the global corporation on the majority of the people of the United States ... we need to recall the principal elements of the global transformation we have been describing thus far. In the first place, the rise of the global corporation represents the globalization of oligopoly capitalism. In perhaps simpler terms, the new corporate structure is the culmination of a process of concentration and internationalization that has put the world economy under the substantial control of a few hundred business enterprises which do not compete with one another according to the traditional rules of the classic market.

Global Profit Maximization

"Second, the interest of these enterprises is global profit maximization, which may, as we have seen in our study of underdeveloped countries, require profit minimization in certain countries under certain circumstances. This is but one example of how the interests of global corporations and countries in which they conduct their operations may conflict. As we shall see in the chapters that follow, conflicts also exist between U.S.-based global corporations and their home country.

The Third World Countries Are the New Sites of Production

"Third, the poor nations of Asia, Latin America, and, soon, Africa, long the hewers of wood and drawers of water for the international economy, are increasingly becoming the principal sites of new production. This dramatic shift from north to south, which could not have been predicted even ten years ago, is changing employment patterns and living standards in the United States.

A Concentration of Power in Private Hands

"Finally, this global economic process is producing a new concentration of political power in what are, in legal and political terms, private hands. In short, the managers of the global corporations are neither elected by the people nor subject to popular scrutiny or even popular pressure, despite the fact that in the course of their daily business they make decisions with more impact on the lives of ordinary people than most generals and politicians. The principal source of their power is their control of knowledge of three specific kinds: the technology of production and organization – i.e., how to make, package, and transport; the technology of obtaining and managing finance capital – i.e., how to create their own private global economy insulated from the vicissitudes of national economies by means of shifting profits and avoiding taxes; the technology of marketing – i.e., how to create and satisfy a demand for their goods by diffusing a consumption ideology through the control of advertising, mass media, and popular culture." (Richard J. Barnet & Ronald E. Muller, *Global Reach*, pp. 213-214.)

Part XIV – The Power of the Global Banks

Economic decision-making which affects the well being of the citizens of the world is not being made in the market place by the consumer but by a few hundred individuals who sit on the boards of the large global corporations. A few international banks have come to dominate not only the money industry in the United States and the world-at-large, but also other key sectors of the economy. Banks now are exercising major control over the nation's manufacturing, media, transportation industries, public utilities, mining companies, computer industry, etc. Barnett and Muller pointed out the power and influence of the large international banks as follows:

"Banks have certain advantages over other corporations in their ability to use cross-subsidization. The most mobile of business enterprises, they can change the focus of their activities from country to country as financial conditions change. Thus the top U.S. banks which invaded London during the Eurodollar boom of the 1960's are now retrenching somewhat in the City and expanding their activities elsewhere. Similarly, they are more flexible in dealing with regimes of all political hues. As the world economy becomes more integrated, even the most militant Communists, who also need hard currency, cannot afford to offend the international bankers.

Banks Expand Control of Nonbanking Sectors of U.S. Economy

"The process by which banks have expanded their control of the nonbanking sectors of the U.S. economy has involved three major strategies. The first is the use of their enormous holdings of industrial stocks which they either own or manage for customers in trust accounts. In 1971 banks owned \$577 billion in corporate securities in their own portfolios and had control of an additional \$336 billion in trust funds. Together these assets in the hands of banks amount to almost \$1 trillion. Trust funds are portfolios of securities given to banks to manage, usually for widows, children, estates, pension funds, or charitable institutions. In 1971, in addition to the banks' own holdings, bank trust departments held 22 percent of all the outstanding voting shares of all publicly held U.S. corporations. For more than 80 percent of these shares the bank had "sole investment responsibility" – which meant that it could buy and sell the shares at will and vote the stock at shareholder meetings.

Enormous Power for Good or Evil

"Thanks to the continuing investigative work of Congressman Wright Patman's Subcommittee on Banking and Currency and Senator Lee Metcalf's Subcommittee on Budgeting, Management and Expenditures, we know a good deal about how banks have translated that trillion dollars into what one subcommittee calls 'enormous potential power for good or evil.' Economists generally agree, and managements are acutely aware, that a shareholder in control of 5 percent of a

publicly held corporation cannot be safely ignored. According to the Patman Subcommittee, there is 'considerable evidence' that corporations seek to establish 'close contact' with such shareholders, who are almost invariably large institutional investors. Corporate management regularly consults them on 'any major corporation decision, such as a proposed merger, a new stock issue proposal or any pending decision which may seriously affect the company's operations.'

Corporate Managers Listen to the Bankers

"Corporate managers listen to the bankers' answers, since they have the power to sell off large blocks of stock and cause a decline in its value, thereby hurting the reputation of management and, perhaps more importantly, the value of its stock options. Moreover, when a bank or insurance company controls 5 percent of a company's stock, it can exert crucial voting power in the event of a proxy battle. (It is much easier to enlist the support of a 5-percent shareholder than to recruit 5,000 small investors.) Institutional investors dominate annual shareholders' meetings on the relatively rare occasions when fundamental issues of corporate policy are put up for a vote.

The Power of America's Largest Global Banks

"The top 49 banks have a 5-percent or greater share of 147 of the top 500 industrials. They have a 5-percent or greater interest in 17 of the top 50 transportation companies, 29 of the top 50 life insurance companies and 5 of the top public utilities. Some specific examples provide a more vivid picture of the power of America's largest global banks.

Fifteen Major Financial Groups in the U.S.

"By examining interlocking directorates and stock ownership of the leading U.S. banks, the economist Peter Dooley has identified fifteen major financial groups in the United States. A group is a collection of nominally separate corporations which pool their resources to enhance their combined power. By far the most powerful is the Rockefeller-Morgan group, the coordinated financial operations of the descendants, beneficiaries, and employees of John D. Rockefeller and J. P. Morgan. As early as 1904, John Moody, the founder of *Moody's Industrials*, still the leading directory to the labyrinth of high finance, concluded that it was impossible to talk of the Rockefellers and Morgans as separate economic actors, so intertwined were their various activities.

The Power Base of the Rockefeller-Morgan Group

"Taking another look at the Rockefeller-Morgan empire in the mid-1960's, Peter Dooley concludes that 'it is not possible to separate these groups.' The power base of the Rockefeller-Morgan group is the control of six of the country's largest banks: the Chase Manhattan Bank, the Rockefeller family depository, of which

David Rockefeller is chairman; the First National City Bank; Manufacturers Hanover Trust; the Chemical Bank of New York; the Morgan Guaranty Trust; and Bankers Trust. In the mid-1960's, according to Patman Subcommittee research, these banks dramatically increased their holdings of one another's stock and consolidated the interlocks among their boards. Together four large interlocking New York banks, according to a 1973 Senate Government Operations Committee report, hold 21.9 percent of United Airlines, 24.7 percent of American Airlines, and 13.8 percent of Western Airlines. The Chase Manhattan Bank alone holds substantially more than 5 percent of United, American, Northwestern, and Western. Chase (with two other Rockefeller-Morgan banks) has voting rights to 23.1 percent of the stock of CBS, to 24.6 percent of ABC, and to 6.7 percent of NBC. In addition to the principal airlines and the three major networks, the Rockefeller-Morgan group has effective control of key sectors of the mining industry. (It is scarcely necessary to mention the Exxon Corporation, until recently Standard Oil, the largest energy corporation in the world and the source and constant nourisher of the Rockefeller family fortune.) In 1967, Chase had a 5.5-percent interest in Reynolds, and Morgan had a 17.5-percent interest in Kennecott (which in turn owns Peabody Coal, the world's largest coal company) and a 15.5-percent interest in American Smelting and Refining.

The Power of the Large Banks

"No committee of Congress or anyone else has been able to show exactly how large banks use their power in the communications and transportation industries and how their huge holdings may affect the public interest. We have some ideas on this, which we shall take up in the next section. Whether banks have too much power over other parts of the economy is controversial. Whether Congress should have the information to determine whether this is so is not. Public authorities do not have the regular access to the information on the interaction of crucial institutions necessary to understand the present U.S. economy and how it works.

Banks Concentrate Ownership and Control through Interlocking Directorates

"Banks have reinforced their concentration of ownership and control by means of a second strategy, the liberal use of the interlocking directorate. The Patman Subcommittee found that the top 49 commercial banks had 5 percent or more stock control *plus* interlocking directorates with 5,270 companies. Dooley's 1966 study 'The Interlocking Directorate' in the *American Economic Review* concludes that 'most of the larger corporations have been interlocked with other large corporations for many decades.'

The Interlocking Directorate

"What are interlocking directorates and why are they important? An interlock occurs when a corporation elects an executive or director of another corporation to be on its board of directors. There are many possible motives behind the practice.

Sometimes it is to get expert business advice from a proved success in another field; sometimes to embellish an annual report with an eminent name. Still another possibility is to suppress competition by inviting representatives of competing firms to share in coordinated planning for the industry. (This practice is prohibited by the Clayton Act of 1914, but Dooley's study shows that 'nearly one in every eight interlocks involves companies which are competitors.') There are special reasons why corporations like to invite bankers to sit on their boards and why bankers like to accept. 'By electing a banker to the board of directors,' Dooley notes, 'a company may expect to have more ready access to bank funds while the banker can watch over the operation of the company and reduce the risk of lending to a distressed borrower.' On the other hand, banks like to elect company officers to their boards to 'attract large deposits' and 'reliable customers' for large loans. Adolph Berle, perhaps the most influential analysts of the American corporation, describes how interlocking directorates enhance the power of banks:

"As trustees, these banks are large stockholders. As suppliers of credit, they have the influence of lenders. With interlocking directorates, they potentially can influence the decision-making function of the operating corporate managers.'

The Root of Many Evils

"In 1914, Louis Brandeis branded the practice of interlocking directorates 'the root of many evils' because of the 'fundamental law that no man can serve two masters.' In the early years of the century populist sentiment was running high, and even Woodrow Wilson was condemning the bankers for their 'monopoly' of money. Running for office against banks in Texas a generation ago was the equivalent of running against King George in the Irish wards of Chicago. Today most populist attacks against bigness, banks, and interlocking directorates have a faintly quixotic air since the U.S. economy has been hurtling for so many years in the opposite direction.

The Use of Cross-Subsidization

"The third and most important strategy of banks for extending their influence over the nonbanking sectors of the economy has been the use of cross-subsidization. Just as oil companies could use their economic power to enter the coal business or the nuclear-energy field or a newspaper chain could use its oligopoly profits to buy TV stations, so the largest banks have in the last ten years systematically used their power over the banking sector to enter, and eventually to dominate, unrelated fields such as insurance and equipment leasing. It had been an article of faith in the New Deal days that the speculation of banks in the stock market was a prime cause of the Great Crash. Accordingly, until the mid-1960's banks were effectively prohibited by law not only from dabbling in the stock market but from venturing into virtually all other new financial pastures.

Essentially, they were supposed to confine their business to gathering in deposits and lending out money.

The Bank Holding Act of 1956

"The Bank Holding Act of 1956 was designed to reaffirm control of banks, but it contained a rather obvious loophole that permitted nonbanking corporations to own both banks and nonrelated industries. Though ostensibly intended for the small-town rural banker who might want to own the local hardware store along with the family bank, the one-bank holding company has been used to establish the banking conglomerate in which a single corporation controls travel services, insurance, commercial paper, consumer credit, credit cards, leasing of industrial equipment, data processing, and certain types of mutual funds. No single lawyer's invention has contributed more to the concentration of wealth in America; banks can use cross-subsidization to drive independent entrepreneurs out of all these businesses.

Intense Global Oligopolistic Competition Forced Further Concentration

"The First National City Bank, which took the lead in creating a one-bank holding company, Citicorp, and the other banking giants that followed expanded their activities in this direction – not only because of their own passion for growth but also because their foreign competitors were thinking and acting the same way. In the mid-60's similar developments in the banking industry were taking place in France, Britain, and Germany, where legislation was already more permissive than the United States. Thus, as in the industrial field, the intensification of worldwide oligopolistic competition forced further concentration in the U.S. economy.

The One-Bank Holding Company

"The one-bank holding company permits banks to transcend legal and financial restrictions that pertain to banks and to cross geographical borders otherwise barred to them. The size of the banking giants permits them to achieve certain economies of scale which in effect pay for their expansion. Thus, for example, banks went into the data-processing business with virtually no initial investment because they had unused time in their own computers. In 1969 new legislation was passed – supposedly to close the loopholes that had permitted banks to escape much intended regulation; but as it finally emerged from the Congress, the new law almost perfectly suited the interests of the large commercial banks. While it helped to prevent the takeover of banks by nonbanking conglomerates, it ratified the right of banks to expand into other 'closely related' financial activities. Thus, Americans hold over 56 million BankAmericards, owned by Bank of America, or Master Charge cards, owned by Inter-Bank, a consortium of the Rockefeller-Morgan – controlled New York banks. For the banks the card is a way of selling 18-percent loans without taking up a bank officer's time. Leasing arrangements are now responsible for what is probably the most rapid and significant growth in the

power of banks over nonbanking activities. Banks are consolidating their hold over the aviation industry by financing both the seller and the buyer of the same equipment, the aircraft manufacturers and the airlines. Between 1971 and 1974 about \$15 billion in sales have been financed through such arrangements. The leasing of equipment is thus one more device for accelerating the diversified growth of banks. 'Tomorrow Citicorp will be bigger and in more places,' the company promises." (Richard J. Barnet & Ronald E. Muller, *Global Reach*, pp. 233-239.)

Part XV – Bankers' Socialism

The large global banks in New York, such as Morgan Guaranty, Chase Manhattan, Citicorp, and others, daily make decisions which affect the lives of every citizen in the United States. Barnet and Muller note that bankers' socialism has taken over America:

". . . Indeed, the proper role of bankers in our society has been a matter of controversy even before Andrew Jackson's clash with Nicholas Biddle over the chartering of the National Bank shook the foundations of the young republic. Despite the advertising campaign to convince anyone with a steady income that 'you have a friend at Chase,' most people do not think so. The popular image of the banker – a rather stuffy man who arrives at the office late and from time to time forecloses on mortgages – was established in turn-of-the-century melodramas and, despite millions spent in institutional advertising, is not yet wholly refurbished. Commercial banks, Wright Patman notes, have 'crept into every crevice of the American economy,' are in a position to make too many crucial decisions affecting the rest of us. Some Marxist critics are strongly impelled to show that banks dominate the industrial economy because this thesis represents the fulfillment of Hilferding's and Lenin's prophecies about the evolution of capitalism. The conflict of interest between industrialists and bankers is seen as part of a 'fatal contradiction' which will lead to the collapse of capitalism.

Promoting Concentration in Nonfinancial Industries

"Our view is different. Banks play two different roles – one in the regulated and another in the nonregulated sector of the economy – with different public consequences. In the nonregulated, dynamic sectors such as the drug, computer, and communications' industries and the fast-growing industrial conglomerates like ITT and Gulf & Western, banks played a crucial role in supporting company management by facilitating its acquisition campaign. This is Wright Patman's summary of what happened:

"One of the favorite pastimes of concentrated financial power is promoting concentration in nonfinancial industries. There is substantial evidence that the major commercial banks have been actively fueling the corporate merger movement. A 1971 congressional report, for example, found that major banks

financed acquisitions, furnished key financial personnel to conglomerates, and were even willing to clean out stock from their trust departments to aid in takeover bids. Thus Gulf and Western, one of the most aggressive conglomerates of the 1950's and 1960's (92 acquisitions involving almost a billion dollars in eleven years), expanded hand in glove with Chase Manhattan. Friendly representatives of Chase made funds available and provided advice and services that assisted Gulf and Western in its acquisitions. In return, in addition to the customary business charges for Gulf and Western's accounts and loans, Chase secured banking business generated by the newly developing conglomerate that formerly had gone to other banks, and was recipient of advance inside information on proposed future acquisition.'

The Increase in the Power of Banks

"Indeed, the accelerating increase in the power of banks is a direct result of the feverish pace of global corporate expansion. Banks have grown in large measure in the last ten years because the dynamic industries have high cash-flow requirements. Following their clients overseas, the largest banks have formed consortia to cap their control over the Eurodollar market. Although large industrial firms such as IBM and GM have traditionally financed most of their expansion from internal capital, they are increasingly resorting to outside financing, particularly for their foreign operations (over 30 percent of their capital requirements in the United States and 50 percent of their capital requirements overseas are met through outside financing). But despite the fact that banks hold large blocks of the stock of such corporations and have representatives on their boards, there is no evidence that the banks have 'taken over' these dynamic corporations. (It must be said at the outset, of course, that there is little evidence of anything concerning the internal relationships of banks and corporations because not only are the deliberations secret but much of the financial data to prove or disprove the thesis that banks dominate industry is also beyond the examination of the Executive, Congress, or the public.) That role of outside financing for U.S.-based global corporations, however, has now become most crucial as the need for additional capital to keep pace with Japanese and European competitors becomes more acute. German and Japanese banks directly control major industries in their countries. Oligopolistic competition may well encourage similar developments in the United States.

The Use of Financial Power

"Thus in the nonregulated growth industries, principally the global giants we have been considering up to now, the question whether banks use their financial power and stockholdings to dictate to the management of such firms scarcely arises because their interests are the same. The bank is as interested as the corporation's own management in promoting corporate policies that will produce growth so that

its holdings will appreciate and its loans will be repaid. Edward S. Herman, professor of finance at the Wharton School, puts it this way:

"What impresses me most in examining intercorporate relationships is not centralized control, banker or otherwise, but the network of personal and business affiliations and contacts and the mutual supportive character of so much of the business system. . . . One can deduce that activities carried out by substantial business firms, no matter how odious, will not be subject to open criticism by important businessmen who are part of the corporate-banking network. If [Dow, GE, Honeywell, North American Rockwell and other major Vietnam war suppliers] were to produce gas chambers under contract with the Pentagon, their decisions would be accepted in silence by the community of leading business firms.'

The Use of Concentrated Financial Power Against the Public

"The issue, it seems to us, is not whether the interests of bankers and the interests of corporate management are in conflict but whether bankers are in a position to use their concentrated financial power against the public interest.

"When we turn to the regulated sector of the U.S. economy, however, a different picture emerges. It is in the regulated industries that the banks' 'enormous potential power for good or evil' is crucial. These industries – power companies, airlines, radio and television, railroads, telephone companies – represent essential services of the society, the social infrastructure on which all other economic growth depends. The one characteristic of these companies is that they are all heavily subsidized by government. Though all are technically private firms, and are privately owned, the government will not allow any of them to stop performing its essential services. They cannot be permitted to go out of business however great their financial losses.

The Power of Banks Over the Transportation Sector

"The power of banks over the transportation sector and how that power is used has recently been illustrated by the Penn Center debacle. The Patman Subcommittee notes that 'a number of financial institutions played a major and perhaps dominant role in the management of the Penn Central and its predecessors.' The chairman of the world's largest privately owned railroad at the time it went into bankruptcy was Stuart T. Saunders, a director of the Chase Manhattan Bank and of the large Philadelphia commercial bank First Pennsylvania Banking and Trust Company. Chase and its closely interlocked ally Morgan Guaranty were major creditors of the railroad. The chief financial officer of the railroad was David C. Bevan, president of a large Philadelphia bank. Beginning in 1963 at the behest of these and other bankers who dominated the railroad's board, Penn Central began a major diversification program, principally into real estate, with the heavy use of commercial bank loans. At a time when service was

declining and rolling stock needed replacement, the Patman Subcommittee notes, the real estate operations 'were competing with the Railroad for the same limited sources of credit at a time when the Railroad was having trouble obtaining needed financing.' In short, Penn Central's finance capital was used to cross-subsidize the real estate expansion. The 'disastrous expansion program,' according to the Subcommittee, produced a net cash drain of \$175 million. The same bankers in charge of Penn Central had also pushed heavily for a merger with the New York central two years before the final collapse. 'Thus, we see,' the Subcommittee report notes, 'that those most anxious to see the merger consummated were people in the financial aspects of the transaction, and who knew or cared little or nothing about running a railroad. Ultimately, the financial experts' judgment proved to be disastrous.'

"It is characteristic of regulated industries that they incur much greater debt than other firms dare incur. The reason they are such good customers for banks is that they are stable. Their growth rates are steady and predictable, their stocks have high yields, and they cannot be permitted to go out of business. It is the near-certain prospect of government rescue that makes no risk social-infrastructure investment attractive for banks. Unlike the situation in the private sector, where fairly large corporations can disappear, even bankruptcy does not mean the end of a railroad, airline, or major military contractor or a default on its loans. If necessary, the Federal Government will keep it in operation and eventually satisfy its creditors.

Corporate Socialism

"This arrangement which would make Adam Smith wince, might be termed bankers' socialism. A good illustration of how it works is seen in the case of the 1971 Lockheed loan. In 1969, Lockheed, then the number one defense contractor, borrowed \$400 million from a consortium of 24 banks. In 1970, while working on the L-1011 Airbus, the company ran into such serious financial difficulty that bankruptcy seemed imminent. Six representatives of the major banks that had lent the \$400 million met in March of that year with Deputy Secretary of Defense David Packard to negotiate their rescue. The result was a \$250-million loan guarantee, which the Nixon Administration proposed and the congress narrowly passed in August 1971, by which the U.S. taxpayer relieved the rescuing banks of all risk. The case illustrates the hold that huge corporations – particularly those in transportation, utilities, and the defense industry – have on the rest of the society. Despite its inefficiency and mismanagement, Lockheed was subsidized by the U.S. taxpayer because of its very size. Too much was at stake to permit Lockheed to fail – 24,000 jobs, \$2.5 billion in outstanding contracts, \$240 million advanced by airlines. (The collapse of Lockheed, the banks argued in support of the rescue operation, would lead to the collapse of TWA.) A number of the same banks that had lent so much money to Lockheed (Chase, Morgan Guaranty, Bank of America,

Wells Fargo, Bankers Trust) had also lend money to the major airlines threatened by a Lockheed bankruptcy.

The Powers of Bankers over Public Utilities

"If we turn our attention to the public utilities, we see the same combination of huge external debt owed to banks and the heavy representation of bankers on the board of directors that we saw in the Penn Central case. Consolidated Edison of New York, the power company that services the New York City area, operates under a board of directors made up of individuals who are also directors of some of the country's largest banks and insurance companies: Manufacturers Hanover, Metropolitan Life, First National City, Chemical Bank. Indeed, not only is Con Ed dominated by men with important bank connections, but the great majority of such connections are with institutions included within the Rockefeller-Morgan network. Six of the ten largest shareholders are commercial banks. (Indeed, according to Senator Lee Metcalf's investigations, Chase Manhattan is among the top ten holders of 42 utilities, Morgan Guaranty Trust is among the top ten of 41 utilities, Manufacturers Hanover Trust is among the top ten of 31 utilities.)

Good Customers for Banks

"Utilities are exceedingly good customers for banks. More than 50 percent of the total capitalization of Con Ed of New York is in long-term debt financing. Because it is a regulated monopoly, it need fear no competition. Its customers have nowhere else to turn to run their electric kitchens or their office-building elevators and air conditioners. Bronx Borough President Robert Abrams calls this enviable position 'a cost-plus relationship with society.' Utilities, he charges, need not cut costs to maintain profits. They need merely raise prices to the customers. Between 1964 and 1969, Con Ed reduced the amount spent on plant additions nearly 10 percent at a time when expansion of service was clearly needed, but increased its payments to the holders of its long-term debt by about 9 percent a year. (By 1969 the power company was paying 93 percent of its annual income to banks and other holders of its stocks and bonds.) No one can prove a direct relationship between this sort of financial management and the persistent power failures that plague the city of New York, but the New York State Public Service Commission blames Con Ed's faulty equipment for the massive 1973 power failure in Queens. There is strong evidence here, as in the Penn Central case, that putting bankers in charge of public utilities is no way to run either a power company or a railroad.

"A whirlwind tour of who owns America, such as we have just completed, is essential to an understanding of the preeminent power of the global corporations over American society. Moreover, as we noted in our discussion of Latin America, one cannot understand global corporations without comprehending their interconnections with global banks. There is also an intimate and necessary

connection between growth and concentration. In a world dominated by oligopolistic competition, the quest for the one leads inevitably to the other.

A Few Hundred Individuals Exercise Tremendous Power

"The result is that managerial control of the technology, the finance capital, and the instruments for developing and disseminating ideology vest in a few hundred individuals. The principal decision makers in the 200 top industrial corporations and the 20 largest banks, which control such a huge proportion of the nation's wealth and its capacity to produce wealth, number fewer than a thousand persons. These individuals are the planners for our society." (Richard J. Barnet & Ronald E. Muller, pp. 239-245.

Part XVI – The Business Interlock and Use of Government

Barnet and Muller next outline the tremendous interlock which exists in America between the large corporations and government. Monopolies and cartels could not exist without the aid of regulatory agencies, either at the national or international level. Government regulations destroy smaller businesses and corporations through the compliance cost of their rules. The large corporations push for government regulation in order to destroy competition and pave the way for mergers and acquisitions. The result is the gradual elimination of the small business. The large corporations have become quite adept at using taxpayers' money for their private agendas. For example, they use taxpayer money to clean up the environment when they should be paying for the cleanup themselves. The alliance of government and business is nothing more than corporate socialism, however, the taxpayers never receive any dividends. Government regulators float from government service to corporate service and vice versa. When government enters the market place unconstitutionally, competition is curtailed and the giant companies only become larger. Barnet and Muller note that:

"Ever-greater concentration of economic power through a process of cross-subsidization across industrial sectors and geographical frontiers is now a crucial dynamic of the world political economy. The acceleration of this process by which a small number of large economic units employ their advantages to acquire ever-greater market shares appears inescapable as long as corporate executives and government managers continue to think as they now do. One reason why concentration is proceeding at an exponential rate is the rapid erosion of sources of national power that might have been expected to restrain this expansionary process.

Little Opposition to Corporate Takeover

"We must now ask the same crucial political question about the united States we posed in connection with Latin America: why is there so little countervailing power to resist the corporate takeover? If our analysis is correct that global banks

are increasingly coming to dominate the vital social services of the society – transport, utilities, etc. – and are using their enormous influence to promote good financial return often at the expense of good public service, why has this been allowed to happen? If global corporations, having assumed the principal planning power in our society, are unable to deal satisfactorily with our major social problems – inflation, unemployment, the energy crisis, pollution – why do they continue to exercise such power?

The Obvious Candidates to Oppose the Power of the Global Corporations

"The answer is structural weakness in major institutions of our national life, which might have been expected to balance off the power of the global corporations. As a result, the United States is looking more and more like an underdeveloped country. As in Latin America, the obvious candidates to oppose the power of the corporations – labor unions, small businessmen, and, especially, the government – are completely inadequate. Why should this be so?

The Decline of the Small Businessman

"Of these three candidates, we shall have little say here about the first two. The decline of the power of labor in the face of the globalization of business is so important a matter that it deserves a separate chapter. The decline of small business and regional business is a vital part of the structural transformation in the American economy, but it is a relatively simple matter to explain. During the nineteenth century and the early years of the twentieth century, interests of Southern farmers, New England millowners, and New York bankers often conflicted, and these regional and sectional differences served to fractionate and hence to check the power of business as a whole. By the mid-twentieth century, however, the United States had been fully integrated into a national market and these historic conflicts among entrepreneurs had largely disappeared. The same techniques now being used to develop the global market – modern transportation, accounting, marketing, etc. – were successfully employed to create the integrated U.S. market, and in the process local pockets of resistance to the march of the great corporations were eliminated. The decline of competition and the disappearance of thousands of small firms with competing interests have consolidated the political power of the business.

Government Lacks the Power to Control Global Corporations

"But why does government lack the power to control global corporations? In Latin America, as we saw, government bureaucracy is weak, corrupt, and inefficient, but the Nixon scandals notwithstanding, that is hardly a fair description of the U.S. Government. Inefficiency abounds and corruption exists, but the government is not weak. Indeed, over the past generation, the Federal state apparatus has claimed and exercised ever-greater power. The centralization of authority over the economy in the Executive Branch and, finally, in the President's

office has made this the era of Big Government. Yet Big Government is unable to control Big Business.

The Dominant Ideologies in Mid-Century America

"The easy explanation is that politicians who achieve high office and the public administrators they appoint have little desire to control the expansion and exercise of corporate power. The dominant ideology in mid-century America is the celebration of growth and bigness. No government dedicated to steady, spectacular economic growth as the prime tool for maintaining social peace can afford to take a tough line with big corporations. For those who have come to power in America in the last thirty years, the notion that there were any fundamental conflicts between corporate interests and the public interest simply did not arise. The power of the United States rested so clearly on the power of the great corporations.

Large Businesses Control the Government

"Therefore, it has seemed quite reasonable to the last five administrations to staff those parts of the Federal Government that regulate the economy with men on loan from the great corporations and banks. The Federal Government is in a position to exercise little countervailing power against big corporations in large measure because of government-business interlocks in the most strategic areas of the economy. The interlocking process begins with the campaign contribution. The stark truth is that no one can be elected President of the United States under our present system without massive financial contributions from big business. This has been a fact for almost one hundred years, but its true significance was dramatized in the Nixon Administration. So anxious were the managers of such corporations as Gulf Oil, Braniff Airways, Phillips Petroleum, Ashland Oil, American Airlines, Minnesota Mining and Manufacturing, Goodyear Tire and Rubber, and Carnation to contribute to the President's already overflowing campaign chest that they broke the law (for which they received suspended jail sentences and small fines). It is clear from the behavior of ITT, milk producers, and banks that corporations regard campaign contributions as investments, not charity. They are buying shares in an Administration which they have reason to expect will be responsive to their interests.

Major Corporate Contributors to President Richard Nixon

"Here is a list of some of the major corporate contributors to the Nixon 1972 campaign:

Robert Allen	Gulf Resources & Chemical Corp.	\$100,000
	American Airlines	\$75,000
Elmer Bobst	Warner-Lambert Pharmaceutical Co.	\$100,000

Nathan Cummings	Consolidated Foods Corp.; board chairman, Assoc. Products Inc. (manufacturing and wholesale food)	\$44,356
Frederick L. Ehrman Harvey, Leonard &	Lehman Corp. (investment banking)	\$63,578
Raymond Firestone	Firestone Tire & Rubber Co.	\$212,153
Max M. Fisher	Chairman, Fisher – New Center Co., cochairman, Finance Committee	\$125,000
Henry Ford II & Family	Ford Motor Company	\$99,775
J. Paul Getty	Getty Oil	\$75,000
Howard Hughes	National Airlines	\$150,000
	Standard Oil Co. of California	\$50,000
	Phillips Petroleum Co.	\$100,000
John A. Mulcahy	President, Quickly Co. (steel subsidiary of Pfizer, Inc., pharmaceuticals)	\$573,559
W. Clement Stone	Combined Insurance Co. of America	\$2,000,000
Arthur K. Watson	Former board chairman, IBM World Trade	\$300,000
Claude C. Wild	Gulf Oil Corp.	\$100,000

"(Some of Mr. Nixon's ambassadorial appointees from large corporations apparently felt a touching sense of obligation to the man who made it possible for them to be addressed for life as 'your Excellency.' The ambassadors to Ireland, France, Britain, Jamaica, Switzerland, Trinidad, and the Netherlands together invested slightly over \$1 million in the 1972 campaign.)"

Regulatory Agencies Are Dominated by Industry

"From the start, regulatory agencies have been dominated by the industries they were supposed to regulate. When the first regulatory agency, the Interstate Commerce Commission, was being debated in 1884, Charles Adams, director and

later president of the Union Pacific Railroad, characterized with refreshing candor what is still the predominant attitude of industry toward Federal regulation. Writing to a Massachusetts Congressman who had asked his help in defeating a 'radical' regulatory measure, he observed:

"What is desired, if I understand it . . . is something having a good sound, which will impress the popular mind with the idea that a great deal is being done, when, in reality, very little is intended to be done.'

Regulatory Agencies Are Captives of Industry

"As the historian Gabriel Kolko has shown, the railroads were proponents of moderate regulatory legislation as an alternative to the tougher measures the anti-railroad forces in the country were pushing. The ICC was staffed from the beginning with a high proportion of railroad lawyers and others sympathetic to the industry. The ICC is still dominated by pro-industry commissioners. Whether one accepts Kolko's view that regulatory agencies have always been captives of the industries they are supposed to regulate or the more conventional view that they begin as crusaders and gradually ossify, the effect is the same. In the words of former Federal Communications Commissioner Nicholas Johnson, the regulatory agency is now 'a leaning tower of Jell-o.'

The Revolving Door

"An impressive qualification for becoming an FCC commissioner is to own a television station, just as it is helpful to have worked for the gas industry if you want to serve on the Federal Power Commission. The plausible argument for taking businessmen on loan to be regulators of their own industry is that they are the ones with the experience to do the job. But the theory that it takes one to catch one is contradicted by consistent practice. The business journal *Forbes* notes that 'it is hard to see how the troubled natural gas industry could have a regulator more to its tastes than the new chairman of the Federal Power Commission' (John N. Nassikas, a Manchester, New Hampshire, utilities lawyer). Other recent FPC commissioners include Rush Moody, Jr., a Texas lawyer representing Pennzoil, an oil conglomerate; and Carl E. Baggee, a Boise lawyer who also represented Pennzoil. In 1972 the Federal Power Commission granted the natural-gas industry huge price increases and, in the words of former FPC Chairman Lee White, 'abandoned the consumer.'

Big Business and Big Government Interlock

"The value of your stock will rise,' Wright Patman pointed out to David Kennedy during the Secretary of the Treasury's testimony in favor of the one-bank holding company. (Kennedy still had major stockholdings in Continental Illinois National Bank and Trust Company, of which he had been chairman and to which he would soon return.) Bankers in government have been protective of their own

interests, as have businessmen on loan from utilities and defense contractors. To a greater or lesser degree this has always been true since the United States became an industrial nation. The government-business interlock goes a long way to explain why the world's most powerful government is ineffective in checking the expanding power of business. To a significant degree, Big Business and Big Government represent identical interests." (Richard J. Barnet & Ronald E. Muller, *Global Reach*, pp. 246-252.)

Part XVII – Central Economic Planning in the Industrial Sector

Earlier we mentioned that large corporations favor centralized economic planning. Barnet and Muller outlined the planning currently underway in the industrial sector. They stated that:

". . . [T]here is a connection between the mounting instability in the United States (and other advanced capitalist states) and the structural changes in the world political economy that we have been tracing. A global transformation has been taking place in the private productive system which has not been reflected in government. The driving force behind the globalization of industry is a managerial revolution that has made it possible to centralize industrial planning on a global scale. As the Senate Finance Committee report on U.S. global firms puts it:

"The coordination of MNC [multinational corporations] operations requires planning and systemization of control of a high order. In the largest and most sophisticated MNC's, planning and subsequent monitoring of plan fulfillment have reached a scope and level of detail that, ironically, resemble more than superficially the national planning procedures of Communist countries.'

The Revolution in Private Industry

"But the managerial revolution in private industry has not been duplicated in government. The public sector had its managerial revolution under the banner of Keynesianism almost forty years ago. . . .

"Centralized planning for a centralized system of profit maximization leads inevitably to economic concentration, because only by expanding or at least maintaining its share of the market can an oligopolistic firm hope to compete successfully with the other giants. Where a small number of such firms pursue similar strategies for growth by extending their control more and more into new industries, new products, and new geographic regions, the result is what Robert Averitt has termed a 'dual economy.' (This characterization was once reserved for underdeveloped countries.) The 'center' economy, comprised a few hundred firms, controls over 60 percent of the productive and financial resources of the country and employs the bulk of organized labor. The 'periphery' economy is made up of thousands of smaller firms dependent on the giants for their survival, and whose

workers do not normally belong to unions. . . ." (Richard J. Barnet & Ronald E. Muller, *Global Reach*, pp. 255-256.)

Part XVIII – Creation of the Soviet Union and China

Earlier we pointed out that the elite who run the world's major corporations had financed the early development of the Soviet Union and later, China. Documentation for this incredible occurrence was provided by Antony Sutton, former Research Fellow at the Hoover Institute on War and Peace at Stanford, in a three volume work entitled, *Western Technology and Soviet Economic Development* and in *Wall Street and the Bolshevik Revolution*. To the world-at-large it seems like the East is arrayed against the West. A closer look at the conflict reveals that an ideological facade has been deliberately constructed to deceive the people of the world. The Western World is currently "managed" by an elite power structure consisting of less than a thousand corporate directors and international bankers. Russia and China are also "managed" by an elite power structure. The elites from both power structures have worked closely with each other since the Bolshevik Revolution and the Chinese Revolution. They favor and adhere to the same ideologies of monopoly capitalism, finance capitalism, civil law, secularism, socialism and communism. Since communism arose in Russia and China, the elite have been engaged in creating a "new Imperial System" to "manage" the earth, its people and resources. The Western World not only created the Soviet industrial and military systems but has subsidized it since 1917. The elite power structure of the West is currently in the process of industrializing China.

Western Technology and Soviet Economic Development

Anthony Sutton's exhaustive and scholarly works provide ample documentation that the West has built the Soviet Union. In a section of *Western Technology and Soviet Economic Development* entitled, "National Security and Technical Transfer," Anthony Sutton noted:

"The major conclusions presented by this study are that Western technology has been, and continues to be, the most important factor in Soviet economic development. The technical transfers that have fostered this development have continued over a period of 50 years. These observations will now be related to the declared hostility of the U.S.S.R. to the West since 1917, a hostility such that the United States alone apparently requires annual defense expenditures in excess of \$80 billion (1969) to counter the threat.

U.S. Policy Regarding Technical Transfers to Soviet Union

"That the Soviets have openly and consistently advocated the overthrow of Western democratic systems from 1917 to the present time is a fundamental starting point for the development of our national security policies. Rationality suggests, therefore, that either our policy regarding technical transfers to the Soviet

Union is in error or our inflated annual defense expenditure is unnecessary. Either there is no valid rationale for much of our trade with the Soviets, i.e., for the main vehicle of technical transfers, or there is no valid rationale for defense against the Soviets. The two policies are incompatible....

"A rational policy for any nation is one based on logical deduction from empirical observation. If a policy is based on erroneous information or on lack of facts, or if it is developed from accurate data by nonlogical, i.e., mystical, methods, the policy is not likely to achieve its objectives.

The Western Policy Toward U.S.S.R

"There is adequate reason to believe that Western policy toward the U.S.S.R. in the field of economic relations is based, first, on an inadequate observation of fact, and second, on invalid assumptions. In no other way can one explain the extraordinary statements made, for example, by State Department officials in Congress, by academic writers, and by 50 years of policies which prescribe first the establishment and then the continuing subsidy of a system that simultaneously calls forth massive armaments expenditures. Those countries which have been the prime technical subsidizers of the U.S.S.R. are also the countries with the largest expenditures on armaments against a presumably real threat from the Soviet Union.

The First Requirement of a Rational Policy in Economic Relations

"The first requirement of a rational policy in economic relations between the Western world and any communist state is to determine the empirical facts governing both economic and strategic-military relations. These three volumes have established, from a precise technical examination, that the Soviet Union and its socialist allies are dependent on the Western world for technical and economic viability. At any time the West chooses to withdraw this technical and economic subsidy, the Soviet Union must either meet terms laid down by the West or effect within its own system the changes needed to achieve self-generated innovation. The major temporal and political demands of the second course suggest that the Soviet Union would come to terms. The West, then, has the option of taking major steps toward developing world peace.

"To subsidize and support a system that is the object of massive military expenditures is both illogical and irrational. In other words, it calls into question not only the ability and wisdom but indeed the basic common sense of the policymakers.

The Choice Is Clear

"The choice therefore is clear; either the West should abandon massive armaments expenditures because the Soviet Union is not an enemy of the West, or

it should abandon the technical transfers that make it possible for the Soviet Union to pose the threat to the Free World which is the *raison d'etre* for such a large share of Western expenditures...." (Antony C. Sutton, *Western Technology and Soviet Economic Development, 1945 to 1965*, Stanford, California: Hoover Institution Press, 1973, pp. 381 & 400.)

Central Economic Planning Will Not Work

Antony Sutton was one of the first economic analysts to point out that central economic planning cannot sustain itself. He noted:

"The prolific literature on central economic planning published in this century contains no discussion – or even passing mention – of one apparently essential prerequisite: there must be systems not regulated strictly by central planning that are willing to provide technical services and productive units for the centrally planned system. A world of strictly centrally planned systems based on the Soviet model, or a single centrally planned world system, could not progress. It would choke on technical inertia. The Soviet state's dependence on the West was at least partly recognized by Lenin, and it is effectively conceded by present-day Soviet leaders when they openly subscribe to advances in Western technology – not omitting, of course, politically necessary references to capitalism's 'internal contradictions'.

"The outstanding achievement of central planning is its ability to realize substantial rates of growth through planned diversion of resources and efforts into chosen industrial sectors. Let us accept as a premise that over the course of 50 years Soviet growth rates in most sectors have been substantial. Iron and steel production is certainly one such sector: Russian pig-iron production was 4.2 million tons in 1913 and 70.3 million metric tons in 1966, while steel production was 4.3 million tons in 1913 and 96.9 million tons in 1966. Fertilizer production was 42,000 tons in 1913 and 6.9 million tons in 1966. Chemical fiber production was zero in 1913 and 458,000 tons in 1966.² Ship production totaled 1.75 million gross registered tons in 1914 and 11 million gross registered tons in 1967.³

Significant Acquisition of Western Technology

"In each case of exceptional rates of growth we find significant acquisition of Western technology at the start of the rise in growth; indeed, it is a matter of open record that increments in output were planned to be at least initially dependent on the West. The planned increment in production was achieved in a conscious manner, not by internal technical resources, but by the purchase of high-productivity advanced units in the West.

"Could the Soviet system have attained high rates of growth in any single sector without outside injections of technology and capacity? The answer is: apparently not. At any rate, no example has been found of a sector in the Soviet economy

achieving rapid rates of growth without technical injections from outside the system. The sector that has come closest to showing indigenous technical progress is the iron and steel industry, with Western technology first absorbed and then scaled up to provide massive increments in pig iron and raw steel output. However, with this sequence the sector's progress has been limited: full modern industrialization demands not only a balanced output of iron and raw steel but also of finished rolled products. Rolling is not subject to scaling-up innovation. One can quadruple the size of an open hearth or a blast furnace, but quadrupling the size of a blooming mill, and certainly a wide-strip mill, is technically impossible. The continuous casting process was seen as a way around the problems posed by the blooming mill, i.e., as a way to replace scaling up, but here, as we have soon, too-rapid introduction brought its own problems.

The Demands of Soviet Central Planning

"The logical conclusion, therefore, is that Soviet central planning absolutely demanded from the outset, and still demands, the existence of technically balanced systems from which it might leach new processes and purchase productive capacity. In the absence of such systems, it probably could not have made great technical progress....

Careful Concealment and Clever Production

"The Soviet economy is always a few years behind the West, but under censorship conditions this has presented no great problem. By a combination of careful concealment and clever promotion,¹⁶ the Soviets have had little difficulty in presenting to foreign observers the facade of a vigorous, sophisticated technology." (Antony C. Sutton, *Western Technology and Soviet Economic Development*, pp. 401-402, 410.)

Research Findings Ignored by Intellectual Community

The research findings of Antony Sutton have been discarded by the intellectual community of the Western World. Undoubtedly the main reason for such a rejection comes from the fact that his research reveals how the elite in the West and the East have cooperated together to build giant monopolies on the earth and to maintain positions of power over large masses of people. His research shows how the multinational corporate directors and the international bankers have deliberately created a "so-called enemy" which they control through financial machinations. Sutton's findings adequately demonstrate that the "new Imperial System" under construction is based upon communism and socialism as well as monopolistic practices, civil law and secularism. The large corporations have been preparing the inhabitants of the world for convergence and habitation in a global system of governance where the elite of the world "manage" the world – its people and resources – under large corporate structures.

Sutton's conclusion states: "The first volume of this study concluded that the Soviets employed more than 350 foreign concessions during the 1920s. These concessions, introduced into the Soviet Union under Lenin's New Economic Policy, enabled foreign entrepreneurs to establish business operations in the Soviet Union without gaining property rights. The Soviet intent was to introduce foreign capital and skills, and the objective was to establish concessions in all sectors of the economy and thereby introduce Western techniques into the dormant post revolutionary Russian economy. The foreign entrepreneur hoped to make a normal business profit in these operations.

Foreign Concessions

"Three type of concessions were isolated: Type I, pure concessions; Type II, mixed concessions; Type III, technical-assistance agreements. Information was acquired on about 70 percent of those actually placed in operation. It was found that concessions were employed within all sectors of the economy except one (furniture and fittings), although the largest single group of concessions was in raw materials development. In the Caucasus oil fields – then seen as the key to economic recovery by virtue of the foreign exchange that oil exports would generate – the International Barnsdall Corporation introduced American rotary drilling techniques and pumping technology. By the end of the 1920s 80 percent of Soviet oil drilling was conducted by the American rotary technique; there had been no rotary drilling at all in Russia at the time of the Revolution. International Barnsdall also introduced a technical revolution in oil pumping and electrification of oil fields. All refineries were built by foreign corporations, although only one, the Standard Oil lease at Batum, was under a concessionary arrangement – the remainder were built under contract. Numerous Type I and Type III technical-assistance concessions were granted in the coal, anthracite, and mining industries, including the largest concession, that of Lena Goldfields, Ltd., which operated some 13 distinct and widely separated industrial complexes by the late 1920s. In sectors such as iron and steel, and particularly in the machinery and electrical equipment manufacturing sectors, numerous agreements were made between trusts and larger individual Tsarist-era plants and Western companies to start up and reequip the plants with the latest in Western technology, A.E.G., General Electric, and Metropolitan-Vickers were the major operators in the machinery sectors. Only in the agricultural sector was the concession a failure.

Western Assistance to U.S.S.R.

"After information had been acquired on as many such concessions and technical-assistance agreements as possible, the economy was divided into 44 sectors and the impact of concessions and foreign technical assistance in each sector was analyzed. It was found that about two-thirds of the sectors received Type I and Type II concessions, while over four-fifths received technical-assistance agreements with foreign companies. A summary statement of this

assistance, irrespective of the types of concession, revealed that all sectors except one, i.e., 43 sectors of a total of 44, had received some form of concession agreement. In other words, in only one sector was there no evidence of Western technological assistance received at some point during the 1920s. The agreements were made either with dominant trusts or with larger individual plants, but as each sector at the outset comprised only a few large units bequeathed by the Tsarist industrial structure, it was found that the skills transferred were easily diffused within a sector and then supplemented by imported equipment. Examination of reports by Western engineers concerning individual plants confirmed that restarting after the Revolution and technical progress during the decade were dependent on Western assistance.

Foreign Entrepreneurs and Firms Enter Soviet Union

"It was therefore concluded that the technical transfer aspect of the New Economic Policy was successful. It enabled foreign entrepreneurs and firms to enter the Soviet Union. From a production of almost zero in 1922 there was a recovery to pre-World War I production figures by 1928. There is no question that the turn-around in Soviet economic fortunes in 1922 is to be linked to German technical assistance, particularly that forthcoming after the Treaty of Rapallo on April 1922 (although this assistance was foreseeable as early as 1917 when the Germans financed the Revolution).

Joint Trading Firms Established With Assistance of Western Businessmen

"It was also determined that the forerunners of Soviet trading companies abroad – i.e., the joint trading firms – were largely established with the assistance of sympathetic Western businessmen. After the initial contacts were made, these joint trading firms disappeared, to be replaced by Soviet-operated units such as Amtorg in the United States and Arcos in the United Kingdom.

"It was concluded that for the period 1917 to 1930 Western assistance in various forms was the single most important factor first in the sheer survival of the Soviet regime and secondly in industrial progress to prerevolutionary levels.

Empirical Conclusions: 1930 to 1945

"Most of the 350 foreign concessions of the 1920s had been liquidated by 1930. Only those entrepreneurs with political significance for the Soviets received compensation, but for those few that did (for example, Hammer and Harriman), the compensation was reasonable.

"The concession was replaced by the technical-assistance agreement, which together with imports of foreign equipment and its subsequent standardization and duplication, constituted the principal means of development during the period 1930 to 1945.

Albert Kahn, Inc. of Detroit

"The general design and supervision of construction, and much of the supply of equipment for the gigantic plants built between 1929 and 1933 was provided by Albert Kahn, Inc., of Detroit, the then most famous of U.S. industrial architectural firms. No large unit of the construction program in those years was without foreign technical assistance, and because Soviet machine tool production then was limited to the most elementary types, all production equipment in these plants was foreign. Soviet sources indicate that 300,000 high-quality foreign machine tools were imported between 1929 and 1940. These machine tools were supplemented by complete industrial plans: for example, the Soviet Union received three tractor plants (which also doubled as tank producers), two giant machine-building plants (Kramatorsk and Uralmash), three major automobile plants, numerous oil refining units, aircraft plants, and tube mills.

A Dozen Top U.S. Companies Involved in U.S.S.R.'s Industrial Development

"Published data on the Soviet 'Plans' neglect to mention a fundamental feature of the Soviet industrial structure in this period: the giant units were built by foreign companies at the very beginning of the 1930s, and the remainder of the decade was devoted to bringing these giants into full production and building satellite assembly and input-supply plants. In sectors such as oil refining and aircraft, where further construction was undertaken at the end of the decade, we find a dozen top U.S. companies (McKee, Lummus, Universal Oil Products, etc.) aiding in the oil-refining sector and other top U.S. aircraft builders in the aircraft sector (Douglas, Vultee, Curtiss-Wright, etc.).

"Only relatively insignificant Soviet innovation occurred in this period: SK-B synthetic rubber, dropped in favor of more useful foreign types after World War II; the Ramzin once-through boiler, confined to small sizes; the turbodrill; and a few aircraft and machine gun designs.

Continual Flow of Western Equipment to Soviets

"The Nazi-Soviet pact and Lend Lease ensured a continued flow of Western equipment up to 1945.

"In sum, the Soviet industrial structure in 1945 consisted of large units producing uninterrupted runs of standardized models copied from foreign designs and manufactured with foreign equipment. Where industrial equipment was of elementary construction (e.g., roasters and furnaces in the chemical industry, turret lathes in the machine tool industry, wooden aircraft, and small ships), the Soviets in 1945 were able to take a foreign design and move into production. One prominent example ... was the Caterpillar D-7 tractor. The original, sent under Lend Lease in 1943, was copied in metric form and became the Soviet S-80 and S-100. It was then adapted for dozens of other military and industrial uses.

Massive Flow of Western Technology

"Thus in the period 1930 to 1945 the Soviets generally no longer required foreign engineers as operators inside the U.S.S.R. as they had in the concessions of the 1920s, but they still required foreign designs, foreign machines (the machines to produce machines), and complete foreign plants in new technical areas. By 1945 the Soviet Union had 'caught up' at least twice; once in the 1930s (it could also be argued that the assistance of the 1920s constituted the first catching-up) with the construction of the First Five Year Plan by foreign companies, and again in 1945 as a result of the massive flow of Western technology under Lend Lease. While the technical skills demonstrated by the Tsarist craftsmen had not quite been achieved, it may be said that in 1945 the nucleus of a skilled engineering force was once again available in Russia – for the first time since the Revolution.

Empirical Conclusions: 1945 to 1965

"In the immediate postwar period the Soviets transferred a large proportion of German industry to the Soviet Union – at least two thirds of the German aircraft industry, the major part of the rocket production industry, probably two-thirds of the electrical industry, several automobile plants, several hundred large ships, and specialized plants to produce instruments, military equipment, armaments, and weapons systems. The stripping of East Germany was supplemented by a U.S. program (Operation RAP) to give the Soviets dismantled plants in the U.S. Zone. By the end of 1946 about 95 percent of dismantling in the U.S. Zone was for the U.S.S.R. (including the aircraft plants of Daimler-Benz, ball bearings facilities, and several munitions plants).

U.S. Export-Import Bank Credits

"Manchuria and Rumania also supplied numerous plants. And as we have seen, Finnish reparations which supplemented the pulp and paper industries and ship construction were made possible by U.S. Export-Import Bank credits to Finland.

"In the late 1950s all this industrial capacity had been absorbed and the Soviets turned their attention to the deficient chemical, computer, shipbuilding, and consumer industries, for which German acquisitions had been relatively slight. A massive complete-plant purchasing program was begun in the late 1950s – for example, the Soviets bought at least 50 complete chemical plants between 1959 and 1963 for chemicals not previously produced in the U.S.S.R. A gigantic ship-purchasing program was then instituted, so that by 1967 about two-thirds of the Soviet merchant fleet had been built in the West. More difficulty was met in the acquisition of computers and similar advanced technologies, but a gradual weakening of Western export control under persistent Western business and political pressures produced a situation by the end of the sixties whereby the Soviets were able to purchase almost the very largest and fastest of Western computers.

Western Firms Selling to U.S.S.R.

"As a further indicator of Soviet technical backwardness, it may be noted that some Western firms selling to the Soviet Union have found 'so many gaps in the control schemes proposed that a two-phase quotation format has been adopted: first a feasibility study is conducted (for which the Western company is paid), and then the actual quotation is determined for a complete system based on the feasibility study. In other words, technical inadequacy is such that the Soviets have not been able to specify exactly what is wanted. What this reflects is not a lack of scientific skill; it shows a lack of information on the technical constituents of a modern industrial system.

U.S.S.R. – A Copy of the West

"In the few areas where indigenous innovation was identified in the earlier period, we find a move back toward the use of Western technology. This is visible in the use of Western synthetic rubbers to replace SK-B, a renewed research effort on rotary drilling as a result of efficiency problems encountered in the use of the Soviet turbodrill, and instances of abandonment of the Ramzin boiler in favor of Western designs. The research and development effort has continued, but its results in practical engineering terms have been near zero. From the technical viewpoint the Soviet Union at 1970 is a copy – a rather imperfect copy – of the West. Generally, initial units are still built by Western companies and subsequent units built by Soviet engineers are based on the original Western model, and imported equipment is used in key process and control areas.

A Persistent and Powerful Force in the West

"It may be unwise to attempt to read into an historical sequence of events as important as those described, any rational objective on the part of Western statesmen. Although the policies concerning trade and technical transfers appear vague and often confused, there is one fundamental observation to be made: throughout the period of 50 years from 1917 to 1970 there was a persistent, powerful, and not clearly identifiable force in the West making for continuance of the transfers. Surely the political power and influence of the Soviets was not sufficient alone to bring about such favorable Western policies. Indeed, in view of the aggressive nature of declared Soviet world objectives, such policies seem incomprehensible if the West's objective is to survive as an alliance of independent, non-communist nations. What, then, are the wellsprings of this phenomenon?

The Argument for Western Aid

"In the years 1917-20 a variant of the modern 'bridge-building' argument was influential within policymaking circles. The Bolsheviks were outlaws, so the argument went, and had to be brought into the civilized world. For example, in

1918 a statement by Edwin Gay, a member of the U.S. War Trade Board and former Dean of the Harvard Business School, was paraphrased in the board minutes as follows:

"Mr. Gay stated the opinion that it was doubtful whether the policy of blockade and economic isolation of these portions of Russia which were under Bolshevik control was the best policy for bringing about the establishment of a stable and proper Government in Russia. Mr. Gay suggested to the [War Trade] Board that if the people in the Bolshevik sections of Russia were given the opportunity to enjoy improved economic conditions, they would themselves bring about the establishment of a moderate and stable social order.'

Western Business Pressure

"At about the same time American businessmen were instrumental in aiding the formation of the Soviet Bureau, and several hundred firms had their names on file in the bureau when it was raided in 1918. Hence there was Western business pressure through political channels to establish Soviet trade. No one appears to have foreseen the possibility of creating a powerful and threatening enemy to the Free World. There was widespread criticism of the Bolsheviks, but this was not allowed to interfere with trade. In sum, there was no argument made against technical transfers while several influential political and business forces were working actively to open up trade.

Policy Formation at the U.S. State Department

"The lack of clear policy formulation and foresight was compounded by the apparent efforts of some State Department officials in the 1930s to discourage collection of information on Soviet economic actions and problems. While the First five Year Plan was under construction by Western companies, various internal State Department memoranda disputed the wisdom of collecting information on this construction. For example, a detailed report from the U.S. Embassy in Tokyo in 1933 (a report containing precisely the kind of information used in this study) was described in Washington as 'not of great interest.' It is therefore possible that no concerted effort to examine the roots of Soviet industrial development has ever been made within the U.S. State Department. Certainly internal State Department reports of the 1930s provide less information than the present study was able to develop. Such lack of ordered information would go far to account for many of the remarkably inaccurate statements made to Congress by officials of the State Department and its consultants in the 1950s and 1960s – statements sometimes so far removed from fact they might have been drawn from the pages of *Alice in Wonderland* rather than the testimony of senior U.S. Executive Department personnel and prominent academicians.

Very Little Public Knowledge About Technology Transfers to U.S.S.R.

"In brief, a possibility exists that there has been no real and pervasive knowledge of these technical transfers – even at the most 'informed' levels of Western governments. Further, it has to be hypothesized that the training of Western government officials is woefully deficient in the area of technology and development of economic systems, and that researchers have been either unable to visualize the possibility of Soviet technical dependence or unwilling, by reason of the bureaucratic aversion to 'rocking the boat,' to put forward research proposals to examine that possibility. This does not however explain why some of the outside consultants who were hired by all Western governments in such profusion, have not systematically explored the possibility. If it is argued, on the contrary, that Western Governments *are* aware of Soviet technical dependency, then how does one explain the national security problem....

The Argument for Technical Assistance to the U.S.S.R.

"An argument has been made that a policy of technical assistance to the U.S.S.R. before World War II was correct as it enabled the Soviets to withstand Hitler's attack of June 1941. This is *ex post facto* reasoning. The German Government financed the Bolshevik Revolution with the aim of removing an enemy (Tsarist Russia), but also with postwar trade and influence in mind. This German support was largely replaced in the late 1920s by American technical assistance, but until the mid-1930s the Germans were still arming the Soviets; it was only in 1939 that Hermann Goering began to protect the supply. Thus in the twenties and the early thirties it was not possible for anyone to foresee that Germany would attack the Soviet Union.

The Bolsheviks Were Assisted to Power by Germany

"The Bolsheviks were assisted to power by a single Western government, Germany, and were maintained in power by all major Western governments. The result is that we have created and continue to maintain what appears to be a first-order threat to the survival of Western civilization. This was done because in the West the political pressures for trade were stronger than any countervailing argument.

U.S. State Department Pressed for Transfer of Military Technology to U.S.S.R.

"This conclusion is supported by the observations that in both the 1930s and the 1960s the U.S. State Department pressed for the outright transfer of military technology to the U.S.S.R. over the protests of the War Department (in the thirties) and the Department of Defense (in the sixties). When in the 1930s the War Department pointed out that the proposed Dupont nitric acid plant had military potential, it was the State Department that allowed the Dupont contract to go

ahead. A Hercules Powder proposal to build a nitrocellulose plant was approved when the State Department accepted the argument that the explosives produced were intended for peacetime use.

"In the 1960s we have the extraordinary 'ball bearing case' of 1961, which revealed that the U.S.S.R. was to receive 45 machines used to produce miniature ball bearings (in the United States almost all miniature ball bearings are used in missiles). That proposal was called a 'tragic mistake' by the Department of Defense but supported by the State Department. In 1968 came the so-called 'Fiat deal' under which the United States supplied three-quarters of the equipment for the Volgograd plant, the largest automobile plant in the U.S.S.R. This agreement ignored an earlier interagency committee finding that 330 military items can be produced by any civilian automobile industry and that the automobile industry is a key factor for war. It also ignores an argument particularly stressed here – that any automobile plant can produce military vehicles. The supply of U.S. equipment for the Volgograd plant was diametrically opposed to any policy of denial of exports of strategic goods to the Soviet Union, for under any definition of 'strategic' the Volgograd plant has clear and significant military weapons capability. Yet the State Department was strongly in favor of the shipment of the plant equipment. The developing story of the Kama plant suggests history is repeating itself.

Gross Incompetence in the State Department

"Under these conditions, where policy is so far removed from logical deduction, it would be imprudent to arrive at any conclusion concerning Western intentions. If logical intentions exist...it is suggested that our strategic policies are not logically derivable from observable fact – that are obscure indeed. The writer leans to the position that there is gross incompetence in the policymaking and research sections of the State Department. There is probably no simple, logical explanation for the fact that we have constructed and maintain a first-order threat to Western society." (Antony C. Sutton, *Western Technology and Soviet Economic Development*, pp. 411-419.)

Through the process of industrial cooperation, inter-governmental economic agreements, barter and switching, licensing, leasing, co-production, joint ventures, mergers, acquisitions and alliances, the Western power structure has succeeded in creating a global system where the elites in China and Russia are prepared to participate with the elites in the United States, Europe, Asia and elsewhere in an effort to 'manage' the world in a "new Imperial System."

3. International Bankers – A World of Intrigue

Part I – Introduction

Money has a strange effect on people. Just mention its name and ears quickly perk up. It seems that practically everyone is interested in collecting it, even the Rothschilds.

The Evolution of Commerce and Banking

The history of money, its use and functions by people and civilizations throughout the world, is one of the most fascinating and intriguing subjects in existence. Surprisingly enough, the evolution of commerce and banking as practiced today had its origins in no other place than Babylonia. One history of banking states:

"Ancient Babylonia developed the first essentially commercial civilization. . . . Laws governed all business transactions. The Great King Hammurabi (2123-2081 B.C.) spelled out the laws of the land at the very outset of Babylonian history; these basic principles were followed in his nation for more than fifteen centuries. Interest was fixed at twenty percent for loans of money (measured weights of silver or gold), and thirty-three and one-third percent for loans in kind...."

Powerful Families Carry on the Business of Lending Money

"There were no banks in the strict sense of the world, but certain powerful families carried on the business of lending money. Loans were made on signatures, property and crops, which were attached in advance to insure repayment. The same men dealt in real estate, financed industrial enterprises, and acted as buying agents for clients. People who had funds on deposit with such men could pay their obligations by drafts, although their 'checks' were, of course, unwieldy in comparison with those we have today.

"...Babylonian business and financial methods provide the fundamental structure for the later commercial development of the world...." (*4000 Years of Banking*, Dayton, Ohio: National Cash Register, June 1970, p. 1.)

The Goldsmiths Discover the Secret of Banking and Credit

From the days of Babylonia until the present, "certain powerful families" have "carried on the business of lending money." To enrich the bankers, the use of debt and interest was developed into a highly efficient art over the centuries. Although banking has been in the hands of private individuals for nearly four thousand years, the development of commercial banking really blossomed in London in the 17th century. It was during this time that certain astute Englishmen and Europeans discovered the secret of banking and credit. They were called the "goldsmiths."

The goldsmiths were the manufacturers of various gold items. It seemed they always had an ample supply of this yellow substance on hand. To safeguard their precious alloy, they built strong vaults at their offices.

The Use of Goldsmith Receipts

During the 17th century a large percentage of trade and commerce was carried on in gold and silver. It is not surprising that merchants and others found it desirable to leave their gold at the goldsmiths. The merchants received a deposit slip or receipt for the amount which they had deposited. Since gold was so heavy, the owner began transacting his business via the use of the goldsmith's receipts.

The Goldsmiths Begin Collecting Interest

The clever goldsmiths soon discovered that it was quite unusual for the merchant or citizen to call for his gold. Since the receipts were being used as a medium of exchange, the goldsmith decided he would enter the banking business. He decided to begin collecting interest for the storage of gold and to begin making loans with an interest charge attached. He decided to issue more receipts than he had gold. Soon the goldsmith became exceedingly wealthy as a result of the interest on non-existent gold.

A Crime against Society

It wasn't long before the merchants and local citizens figured out how the goldsmith was making his money. When they came to collect their gold, they found there was none. Many a goldsmith was introduced to the gallows for his crime against society.

The Bank of Amsterdam

The first banking institution to follow the practice of the goldsmiths was the Bank of Amsterdam. It was established in 1609 in Amsterdam, Holland. The bank accepted deposits in gold, silver, etc., and issued separate receipts. Soon the receipts multiplied and were used as the medium of exchange in the country.

At first the bankers refused to issue more receipts than they had gold. However, it wasn't long until greed and the love of money replaced common sense and honest business practices. The old practice of the goldsmiths was reintroduced and paper receipts or loans were made on money (gold) which didn't exist.

A Run on the Bank

Everything went fine for the Amsterdam bankers until 1795 when the truth leaked out that a major fraud had been perpetrated. The bankers were collecting

interest on money which they had created out of thin air. A run on the bank resulted in the closure since the demand for gold far exceeded the bank's supply.

The collapse of the Amsterdam bank should have been a lesson for the people and bankers of Holland and Europe. However, it was soon forgotten. The bankers throughout Europe soon were up to their old tricks unbeknownst to the majority of the people.

Christian Teachings against Interest

In England the goldsmith's art of creating money with ledger entries was being perfected to a near science. For centuries, the Christians in England believed that it was contrary to the Bible to loan money at usury or interest. (See Deut. 23:19). It turned out, however, that the most prominent money lenders and goldsmiths in England and Europe did not follow the Old Testament teachings on usury.

Parliament Legalizes the Moneylending Practices of the Goldsmiths

The goldsmiths in England became so powerful that Parliament legalized their money lending practice in the 1690s. For sometime the money lenders had been taking the money out of circulation. By 1693 practically all of the money in England was stored in the vaults of the goldsmiths. They were becoming exceedingly rich on their high interest. The bankers were loaning up to ten times the amount of money which they possessed. It was during this time that King William III badly needed money for the war with Louis IV in France. The King requested a loan from the goldsmiths. The goldsmiths agreed, providing the Parliament and the King would grant them, (1) a charter to institutionalize their practices in the form of the Bank of England and (2) their request to issue currency against the gold in its vault. This was done and in 1694 the world's first privately owned central bank was established.

Part II – The Origins of the Bank of England

Concerning the origins of the Bank of England, professor Carroll Quigley, former professor of history at the Foreign Service School of Georgetown University has stated:

"Hundreds of years ago, bankers began to specialize, with the richer and more influential ones associated increasingly with foreign trade and foreign exchange transactions. Since these were richer and more cosmopolitan and increasingly concerned with questions of political significance, such as stability and debasements of currencies, war and peace, dynastic marriages, and worldwide trading monopolies, they became the financiers and financial advisers of governments. Moreover, since their relationships with governments were always in monetary terms and not real terms, and since they were always obsessed with the stability of monetary exchanges between one country's money and another, they

used their power and influence to do two things: (1) to get all money and debts expressed in terms of a strictly limited commodity – ultimately gold; and (2) to get all monetary matters out of the control of governments and political authority, on the grounds that they would be handled better by private banking interests in terms of such a stable value as gold....

England Discovers the Secret of Credit

"Britain's victories over Louis XIV in the period 1667-1715 and over the French Revolutionary governments and Napoleon in 1792-1815 had many causes, such as its insular position, its ability to retain control of the sea, its ability to present itself to the world as the defender of the freedoms and rights of small nations and of diverse social and religious groups. Among these numerous causes, there was a financial one and an economic one. Financially, England had discovered the secret of credit. Economically, England had embarked on the Industrial Revolution.

The Fractional Reserve System

"Credit had been known to the Italians and Netherlanders long before it became one of the instruments of English world supremacy. Nevertheless, the founding of the Bank of England by William Paterson and his friends in 1694 is one of the great dates in world history. For generations men had sought to avoid the one drawback of gold, its heaviness, by using pieces of paper to represent specific pieces of gold. Today we call such pieces of paper gold certificates. Such a certificate entitles its bearer to exchange it for its piece of gold on demand, but in view of the convenience of paper, only a small fraction of certificate holders ever did make such demands. It early became clear that gold need be held on hand only to the amount needed to cover the fraction of certificates likely to be presented for payment; according, the rest of the gold could be used for business purposes, or, what amounts to the same thing, a volume of certificates could be issued greater than the volume of gold reserved for payment of demands against them. Such an excess volume of paper claims against reserves we now call bank notes.

The Bankers Were Creating Money Out of Nothing

"In effect, this creation of paper claims greater than the reserves available means that bankers were creating money out of nothing. The same thing could be done in another way, not by note-issuing banks but by deposit banks. Deposit bankers discovered that orders and checks drawn against deposits by depositors and given to third persons were often not cashed by the latter but were deposited to their own accounts. Thus there were no actual movements of funds, and payments were made simply by bookkeeping transactions on the accounts. Accordingly, it was necessary for the banker to keep on hand in actual money (gold, certificates, and notes) no more than the fraction of deposits likely to be drawn upon and cashed; the rest could be used for loans, and if these loans were made by creating a deposit for the borrowers, who in turn would draw checks upon it rather than

withdraw it in money, such 'created deposits' or loans could also be covered adequately by retaining reserves to only a fraction of their value. Such created deposits also were a creation of money out of nothing, although bankers usually refused to express their actions, either note issuing or deposit lending, in these terms.

Bankers Gain Interest on Money Created Out of Nothing

"William Paterson, however, on obtaining the charter of the Bank of England in 1694, to use the moneys he had won in privateering, said, 'The Bank hath benefit of interest on all moneys which it creates out of nothing.' This was repeated by Sir Edward Holden, founder of the Midland Bank, on December 18, 1907, and is, of course, generally admitted today.

Creating Means of Payment Out of Nothing

"This organizational structure for creating means of payment out of nothing, which we call credit, was not invented by England but was developed by her to become one of her chief weapons in the victory over Napoleon in 1815. The emperor, as the last great mercantilist, could not see money in any but concrete terms, and was convinced that his efforts to fight wars on the basis of 'sound money,' by avoiding the creation of credit, would ultimately win him a victory by bankrupting England. He was wrong, although the lesson has had to be relearned by modern financiers in the twentieth century...."*Tragedy and Hope, A History of the World in Our Time*, New York: The Macmillan Company, 1966, pp. 47-49.)

Part III – The Development of Large Banking Dynasties

The former goldsmiths and money lenders lost no time in attaching respectability to their formerly dishonest practices. The practice of "creating money out of nothing" grew rapidly throughout Europe during the 1700s and 1800s. In due time the goldsmiths and their descendants grew into large family banking dynasties called merchant bankers. They became the upper class in various centers of Europe and were especially skilled in financial manipulation at the international level. Quigley states:

"The merchant bankers of London had already at hand in 1810-1850 the Stock Exchange, the Bank of England, and the London money market when the needs of advancing industrialism called all of these into the industrial world which they had hitherto ignored. In time they brought into their financial network the provincial banking centers, organized as commercial banks and savings banks, as well as insurance companies, to form all of these into a single financial system on an international scale which manipulated the quantity and flow of money so that they were able to influence, if not control governments on one side and industries on the other. The men who did this, looking backward toward the period of dynastic monarchy in which they had their own roots, aspired to establish dynasties of

international bankers and were at least as successful at this as were many of the dynastic political rulers.

The House of Rothschild

"The greatest of these dynasties, of course, were the descendants of Meyer Amschel Rothschild (1743-1812) of Frankfort, whose male descendants, for at least two generations, generally married first cousins or even nieces. Rothschild's five sons, established at branches in Vienna, London, Naples, and Paris, as well as Frankfort, cooperated together in ways which other international banking dynasties copied but rarely excelled....

Merchant Bankers Differ from Ordinary Bankers

"The names of some of these banking families are familiar to all of us and should be more so. They include Baring, Lazard, Erlanger, Warburg, Schroder, Seligman, the Speyers, Mirabaud, Mallet, Fould, and above all Rothschild and Morgan. Even after these banking families became fully involved in domestic industry by the emergence of financial capitalism, they remained different from ordinary bankers in distinctive ways: (1) they were cosmopolitan and international; (2) they were close to governments and were particularly concerned with questions of government debts, including foreign government debts, even in areas which seemed, at first glance, poor risks, like Egypt, Persia, Ottoman Turkey, Imperial China, and Latin America; (3) their interests were almost exclusively in bonds, and very rarely in goods, since they admired 'liquidity' and regarded commitments in commodities or even real estate as the first step toward bankruptcy; (4) they were, accordingly, fanatical devotees of deflation (which they called 'sound' money from its close association with high interest rates and high value of money) and of the gold standard, which, in their eyes, symbolized and ensured their values; and (5) they were almost equally devoted to secrecy and the secret use of financial influence on political life. These bankers came to be called 'international bankers' and, more particularly, were known as 'merchant bankers' in England, 'private bankers' in France, and 'investment bankers' in the United States. In all countries they carried on various kinds of banking and exchange activities, but everywhere they were sharply distinguishable from other more obvious, kinds of banks, such as savings banks or commercial banks.

Merchant Bankers Continue Private Firms

"Once of their less obvious characteristics was the they remained as private unincorporated firms, usually partnerships, until relatively recently, offering no shares, no reports, and usually no advertising to the public. This risky status, which deprived them of limited liability, was retained, in most cases, until modern inheritance taxes made it essential to surround such family wealth with the immortality of corporate status for tax-avoidance purposes. This persistence as private firms continued because it ensured the maximum of anonymity and secrecy

to persons of tremendous public power who dreaded public knowledge of their activities as an evil almost as great as inflation.

The System of Influence Which Centered on J. P. Morgan

"As a consequence, ordinary people had no way of knowing the wealth or areas of operations of such firms, and often were somewhat hazy as to their membership. Thus, people of considerable political knowledge might not associate the names Walter Burns, Clinton Dawkins, Edward Grenfell, Willard Straight, Thomas Lamont, Dwight Morrow, Nelson Perkins, Russell Leffingwell, Elihu Root, John W. Davis, John Foster Dulles, and S. Parker Gilbert with the name 'Morgan,' yet all these and many others were parts of the system of influence which centered on the J. P. Morgan office at 23 Wall Street.

J. P. Morgan and Company

"This firm, like others of the international banking fraternity, constantly operated through corporations and governments, yet remained itself an obscure private partnership.... J. P. Morgan and Company, originally founded in London as George Peabody and Company in 1838, was not incorporated until March 21, 1940, and went out of existence as a separate entity on April 24, 1959, when it merged with its most important commercial bank subsidiary, the Guaranty Trust Company. The London affiliate, Morgan Grenfell, was incorporated in 1934, and still exists.

Business and Government Persuaded to Accept Two Axioms of International Banking

"The influence of financial capitalism and of the international bankers who created it was exercised both on business and on governments, but could have done neither if it had not been able to persuade both these to accept two 'axioms' of its own ideology. Both of these were based on the assumption that politicians were too weak and too subject to temporary popular pressures to be trusted with control of the money system; accordingly, the sanctity of all values and the soundness of money must be protected in two ways: by basing the value of money on gold and by allowing bankers to control the supply of money. To do this it was necessary to conceal, or even to mislead, both governments and people about the nature of money and its methods of operation.

The Gold Standard

"For example, bankers called the process of establishing a monetary system on gold 'stabilization,' and implied that this covered, as a single consequence, stabilization of exchanges and stabilization of prices. It really achieved only stabilization of exchanges, while its influence on prices were quite independent and incidental, and might be unstabilizing (from its usual tendency to force prices

downward by limiting the supply of money). As a consequence, many persons, including financiers and even economists, were astonished to discover, in the twentieth century, that the gold standard gave stable exchanges and unstable prices. It had, however, already contributed to a similar, but less extreme, situation in much of the nineteenth century." (Carroll Quigley, *Tragedy and Hope*, pp. 51-53.)

Part IV – The Supply of Money in Each Country

Concerning the operation of the banking system which grew out of England and Europe, Quigley notes:

"In each country the supply of money took the form of an inverted pyramid or cone balanced on its point. In the point was a supply of gold and its equivalent certificates; on the intermediate levels was a much larger supply of notes; and at the top, with an open and expandable upper surface, was an even greater supply of deposits. Each level used the levels below it as its reserves, and, since these lower levels had smaller quantities of money, they were 'sounder.' A holder of claims on the middle or upper level could increase his confidence in his claims on wealth by reducing them to a lower level, although, of course, if everyone, or any considerable number of persons, tried to do this at the same time the volume of reserves would be totally inadequate. Notes were issued by 'banks of emission' or banks of issue,' and were secured by reserves of gold or certificates held in their own coffers or in some central reserve. The fraction of such a note issue held in reserve depended upon custom, banking regulations (including the terms of a bank's charter), or statute law.

The Role of Central Banks

"There were formerly many banks of issue, but this function is now generally restricted to a few or even to a single 'central bank' in each country. Such banks, even central banks, were private institutions, owned by shareholders who profited by their operations. In the 1914–1939 period, in the United States, Federal Reserve Notes were covered by gold certificates to 40 percent of their value, but this was reduced to 25 percent in 1945. The Bank of England, by an Act of 1928, had its notes uncovered up to 250 million, and covered by gold for 100 percent value over that amount. The Bank of France, in the same year, set its note cover at 35 percent. These provisions could always be set aside or changed in an emergency, such as war.

Lodged Deposits and Created Deposits

"Deposits on the upper level of the pyramid were called this name, with typical bankers' ambiguity, in spite of the fact that they consisted of two utterly different kinds of relationships: (1) 'lodged deposits,' which were real claims left by a depositor in a bank, on which the depositor might receive interest, since such deposits were debts owed by the bank to the depositor; and (2) 'created deposits,'

which were claims created by the bank out of nothing as loans from the bank to 'depositors' who had to pay interest on them, since these represented debt from them to the bank. In both cases, of course, checks could be drawn against such deposits to make payments to third parties, which is why both were called by the same name. Both form part of the money supply. Lodged deposits as a form of savings are deflationary, while created deposits, being an addition to the money supply, are inflationary. The volume of the latter depends on a number of factors of which the chief are the rate of interest and the demand for such credit. These two play a very significant role in determining the volume of money in the community, since a large portion of that volume, in an advanced economic community, is made up of checks drawn against deposits.

The Volume of Deposits

"The volume of deposits banks can create, like the amount of notes they can issue, depends upon the volume of reserves available to pay whatever fraction of checks are cashed rather than deposited. These matters may be regulated by laws, by bankers' rules, or simply by local customs. In the United States deposits were traditionally limited to ten times reserves of notes and gold. In Britain it was usually nearer twenty times such reserves. In all countries the demand for and volume of such credit was larger in time of a boom and less in time of a depression. This to a considerable extent explains the inflationary aspect of a depression, the combination helping to form the so-called 'business cycle.'

Central Bank Surrounded by Private Investment Banking Firms

"In the course of the nineteenth century, with the full establishment of the gold standard and of the modern banking system, there grew up around the fluctuating inverted pyramid of the money supply a plethora of financial establishments which came to assume the configurations of a solar system; that is, of a central bank surrounded by satellite financial institutions. In most countries the central bank was surrounded closely by the almost invisible private investment banking firms. These, like the planet Mercury, could hardly be seen in the dazzle emitted by the central bank which they, in fact, often dominated. Yet a close observer could hardly fail to notice the close private associations between these private international bankers and the central bank itself. In France, for example, in 1936 when the Bank of France was reformed its Board of Regents (directors) was still dominated by the names of the families who had originally set it up in 1800; to these had been added a few more recent names, such as Rothschild (added in 1819); in some cases the name might not be readily recognized because it was that of a son-in-law rather than that of a son. Otherwise, in 1914, the names, frequently those of ... Swiss origin (who arrived in the eighteenth century) or of ... German origin (who arrived in the nineteenth century), had been much the same for more than a century.

"In England a somewhat similar situation existed, so that even in the middle of the twentieth century the Members of the Court of the Bank of England were chiefly associates of the various old 'merchant banking' firms such as Baring Brothers, Morgan Grenfell, Lazard Brothers, and others.

The Commercial Banks

"In secondary position, outside the central core, are the commercial banks, called in England the 'joint-stock banks,' and on the Continent frequently known as 'deposit banks.' These include such famous names as Midland Bank, Lloyd's Bank, Barclays Bank in England, the National City Bank in the United States, the Credit Lyonnais in France, and the Darmstadter Bank in Germany.

Institutions That Have Little Financial Power

"Outside this secondary ring is a third, more peripheral, assemblage of institutions that have little financial power but do have the very significant function of mobilizing funds from the public. This includes a wide variety of savings banks, insurance firms, and trust companies.

The Influence of Private Bankers on Industry and Government

"Naturally, these arrangements vary greatly from place to place, especially as the division of banking functions and powers are not the same in all countries. In France and England the private bankers exercised their powers through the central bank and had much more influence on the government and on foreign policy and much less influence on industry, because in these two countries, unlike Germany, Italy, the United States, or Russia, private savings were sufficient to allow much of industry to finance itself without recourse either to bankers or government. In the United States much industry was financed by investment bankers directly, and the power of these both on industry and on government was very great, while the central bank (the New York Federal Reserve Bank) was established late (1913) and became powerful much later.... In Germany industry was financed and controlled by the discount banks, while the central bank was of little power or significance before 1914. In Russia the role of the government was dominant in much of economic life, while in Italy the situation was backward and complicated." (Carroll Quigley, *Tragedy and Hope*, pp. 54-56.)

Part V – The Money Power Dominates Business and Government

Carroll Quigley's commentary on the history of banking should be required reading for the serious student of international affairs. The lengthy text outlines in a fairly readable manner the tremendous interlock of power which the international bankers have developed since 1694. Quigley continued his commentary by stating:

". . . In the various actions which increase or decrease the supply of money, governments, bankers, and industrialists have not always seen eye to eye. On the whole, in the period up to 1931, bankers, especially the Money Power controlled by the international investment bankers, were able to dominate both business and government. They could dominate business, especially in activities and in areas where industry could not finance its own needs for capital, because investment bankers had the ability to supply or refuse to supply such capital. Thus, Rothschild interests came to dominate many of the railroads of Europe, while Morgan dominated at least 26,000 miles of American railroads.

Interlocking Directorates

"Such bankers went further than this. In return for flotations of securities of industry, they took seats on the boards of directors of industrial firms, as they had already done on commercial banks, savings banks, insurance firms, and finance companies. From these lesser institutions they funneled capital to enterprises which yielded control and away from those who resisted. These firms were controlled through interlocking directorships, holding companies, and lesser banks. They engineered amalgamations and generally reduced competition, until by the early twentieth century many activities were so monopolized that they could raise their noncompetitive prices above costs to obtain sufficient profits to become self-financing and were thus able to eliminate the control of bankers. But before that stage was reached a relatively small number of bankers were in positions of immense influence in European and American economic life.

Three Hundred Men Control the Economic Destiny of Europe

"As early as 1909, Walter Rathenau, who was in a position to know (since he had inherited from his father control of the German General Electric Company and held scores of directorships himself), said, 'Three hundred men, all of whom know one another, direct the economic destiny of Europe and choose their successors from among themselves.'

The Power of Investment Bankers over Governments

"The power of investment bankers over governments rests on a number of factors, of which the most significant, perhaps, is the need of governments to issue short-term treasury bills as well as long-term government bonds. Just as businessmen go to commercial banks for current capital advances to smooth over the discrepancies between their irregular and intermittent incomes and their periodic and persistent outgoes (such as monthly rents, annual mortgage payments, and weekly wages), so a government has to go to merchant bankers (or institutions controlled by them) to tide over the shallow places caused by irregular tax receipts. As experts in government bonds, the international bankers not only handled the necessary advances but provided advice to government officials and, on many occasions, placed their own members in official posts for varied periods to deal

with special problems. This is so widely accepted even today that in 1961 a Republican investment banker became Secretary of the Treasury in a Democratic Administration in Washington without significant comment from any direction.

Government Was to Leave the Money Power Supreme and Unquestioned

"Naturally, the influence of bankers over governments during the age of financial capitalism (roughly 1850-1931) was not something about which anyone talked freely, but it has been admitted frequently enough by those on the inside, especially in England. In 1852 Gladstone, chancellor of the Exchequer, declared, 'The hinge of the whole situation was this: the government itself was not to be a substantive power in matters of Finance, but was to leave the Money Power supreme and unquestioned.' On September 26, 1921, *The Financial Times* wrote, 'Half a dozen men at the top of the Big Five Banks could upset the whole fabric of government finance by refraining from renewing Treasury Bills.' In 1924 Sir Drummond Fraser, vice-president of the Institute of Bankers, stated, 'The Governor of the Bank of England must be the autocrat who dictates the terms upon which alone the Government can obtain borrowed money.'

Bankers Steer Governments Through Various Means

"In addition to their power over government based on government financing and personal influence, bankers could steer governments in ways they wished them to go by other pressures. Since most government officials felt ignorant of finance, they sought advice from bankers whom they considered to be experts in the field. The history of the last century shows, as we shall see later, that the advice given to governments by bankers, like the advice they gave to industrialists, was consistently good for bankers, but was often disastrous for governments, businessmen, and the people generally. Such advice could be enforced if necessary by manipulation of exchanges, gold flows, discount rates, and even levels of business activity. Thus Morgan dominated Cleveland's second administration by gold withdrawals, and in 1936-1938 French foreign exchange manipulators paralyzed the Popular Front governments.

International Bankers Dominate International Relations and Other Matters

"As we shall see, the powers of these international bankers reached their peak in the last decade of their supremacy, 1919-1931, when Montagu Norman and J. P. Morgan dominated not only the financial world but international relations and other matters as well. On November 11, 1927, the *Wall Street Journal* called Mr. Norman 'the currency dictator of Europe.' This was admitted by Mr. Norman himself before the Court of the Bank on March 21, 1930, and before the Macmillan Committee of the House of Commons five days later. On one occasion, just before international financial capitalism ran, at full speed, on the rocks which sank it, Mr. Norman is reported to have said, 'I hold the hegemony of the world.' At the time, some Englishmen spoke of 'the second Norman Conquest of England' in reference

to the fact that Norman's brother was head of the British Broadcasting Corporation. It might be added that Governor Norman rarely acted in major world problems without consulting with J. P. Morgan's representatives, and as a consequence he was one of the most widely traveled men of his day. . . . " (Carroll Quigley, *Tragedy and Hope*, pp. 60-61.)

Part VI – The Development of Financial Power in the United States

Concerning the developing of financial power in America, Quigley provides us with the following insights:

"The Founding Fathers had assumed that the political control of the country would be conducted by men of property and leisure who would generally know each other personally and, facing no need for urgent decisions, would move government to action when they agreed and be able to prevent it from acting, without serious damage, when they could not agree. The American Constitution, with its provisions for division of powers and selection of the chief executive by an electoral college, reflected this point of view. So also did the use of the party caucus of legislative assemblies for nomination to public office and the election of senators by the same assemblies. The arrival of a mass democracy after 1830 changed this situation, establishing the use of party conventions for nominations and the use of entrenched political party machines, supported on the patronage of public office, to mobilize sufficient votes to elect their candidates.

Elected Officials Under Pressure from Three Directions

"As a result of this situation, the elected official from 1840 to 1880 found himself under pressure from three directions: from the popular electorate which provided him with the votes necessary for election, from the party machine which provided him with the nomination to run for office as well as the patronage appointments by which he could reward his followers, and from the wealthy economic interests which gave him the money for campaign expenses with, perhaps, a certain surplus for his own pocket. This was a fairly workable system, since the three forces were approximately equal, the advantage, if any, resting with the party machine.

The Forces of Finance and Business Make Large Contributions to Party Political Machines

"This advantage became so great in the period 1865-1880 that the forces of finance, commerce, and industry were forced to contribute ever-increasing largesse to the political machines in order to obtain the services from government which they regarded as their due, services such as higher tariffs, land grants to railroads, better postal services, and mining or timber concessions. The fact that these forces of finance and business were themselves growing in wealth and power made them increasingly restive under the need to make constantly larger contributions to party

political machines. Moreover, these economic tycoons increasingly felt it to be unseemly that they should be unable to issue orders but instead have to negotiate as equals in order to obtain services or favors from party bosses.

The Reason Business Leaders Attacked the Patronage System

"By the late 1870's business leaders determined to make an end to this situation by cutting with one blow the taproot of the system of party machines, namely, the patronage system. This system, which they called by the derogatory term 'spoils system,' was objectionable to big business not so much because it led to dishonesty or inefficiency but because it made the party machines independent of business control by giving them a source of income (campaign contributions from government employees) which was independent of business control. If this source could be cut off or even sensibly reduced, politicians would be much more dependent upon business contributions for campaign expenses. At a time when the growth of a mass press and of the use of chartered trains for political candidates were greatly increasing the expense of campaigning for office, any reduction in campaign contributions from officeholders would inevitably make politicians more subservient to business. It was with this aim in view that civil service reform began in the Federal government with the Pendleton Bill of 1883. As a result, the government was controlled with varying degrees of completeness by the forces of investment banking and heavy industry from 1884 to 1933.

Investment Bankers Wield Enormous Economic, Political, and Social Power

"This period, 1884-1933, was the period of financial capitalism in which investment bankers moving into commercial banking and insurance on one side and into railroading and heavy industry on the other were able to mobilize enormous wealth and wield enormous economic, political, and social power. Popularly known as 'Society,' or the '400,' they lived a life of dazzling splendor. Sailing the ocean in great private yachts or traveling on land by private trains, they moved in a ceremonious round between their spectacular estates and town houses in Palm beach, Long Island, the Berkshires, Newport, and Bar Harbor; assembling from their fortress-like New York residences to attend the Metropolitan Opera under the critical eye of Mrs. Astor; or gathering for business meetings of the highest strategic level in the awesome presence of J. P. Morgan himself.

The Structure of Financial Control Created by the Banking and Business Leaders

"The structure of financial controls created by the tycoons of 'Big Banking' and 'Big Business' in the period 1880-1933 was of extraordinary complexity, one business fief being built on another, both being allied with semi-independent associates, the whole rearing upward into two pinnacles of economic and financial power, of which one, centered in New York, was headed by J. P. Morgan and Company, and the other, in Ohio, was headed by the Rockefeller family. When

these two cooperated, as they generally did, they could influence the economic life of the country to a large degree and could almost control its political life, at least on the Federal level. The former point can be illustrated by a few facts. In the United States the number of billion-dollar corporations rose from one in 1909 (United States Steel, controlled by Morgan) to fifteen in 1930. The share of all corporation assets held by the 200 largest corporations rose from 32 percent in 1909 to 49 percent in 1930 and reached 57 percent in 1939. By 1930 these 200 largest corporations held 49.2 percent of the assets of all 40,000 corporations in the country (\$81 billion out of \$165 billion); they held 38 percent of all business wealth, incorporated or unincorporated (or \$81 billion out of \$212 billion); and they held 22 percent of all the wealth in the country (or \$81 billion out of \$367 billion). In fact, in 1930, one corporation (American Telephone and Telegraph, controlled by Morgan) had greater assets than the total wealth in twenty-one states of the Union.

The Influence of the Morgan and Rockefeller Groups

"The influence of these business leaders was so great that the Morgan and Rockefeller groups acting together, or even Morgan acting alone, could have wrecked the economic system of the country merely by throwing securities on the stock market for sale, and, having precipitated a stock-market panic, could then have brought back the securities they had sold but at a lower price. Naturally, they were not so foolish as to do this, although Morgan came very close to it precipitating the 'panic of 1907,' but they did not hesitate to wreck individual corporations, at the expense of the holders of common stocks, by driving them to bankruptcy. In this way, to take only two examples, Morgan wrecked the New York, New Haven, and Hartford Railroad before 1914 by selling to it, at high prices, the largely valueless securities of myriad New England steamship and trolley lines; and William Rockefeller and his friends wrecked the Chicago, Milwaukee, St. Paul, and Pacific Railroad before 1925 by selling to it, at excessive prices, plans to electrify to the Pacific, copper, electricity, and a worthless branch railroad (the Gary Line).

The Financial Capitalists Exploit an Operating Company

"These are but examples of the discovery by financial capitalists that they made money out of issuing and selling securities rather than out of production, distribution, and consumption of goods and accordingly led them to the point where they discovered that the exploiting of an operating company by excessive issuance of securities or the issuance of bonds rather than equity securities not only was profitable to them but made it possible for them to increase their profits by bankruptcy of the firm, providing fees and commissions of reorganization as well as the opportunity to issue new securities.

Business Interests Control the Republican Party

"When the business interests, led by William C. Whitney, pushed through the first installment of civil service reform in 1883, they expected that they would be able to control both political parties equally. Indeed, some of them intended to contribute to both and to allow an alternation of the two parties in public office in order to conceal their own influence, inhibit any exhibition of independence by politicians, and allow the electorate to believe that they were exercising their own free choice. Such an alternation of the parties on the Federal scene occurred in the period 1880-1896, with business influence (or at least Morgan's influence) as great in Democratic as in Republican administrations. But in 1896, came a shocking experience. The business interests discovered that they could control the Republican Party to a large degree but could not be nearly so confident of controlling the Democratic Party. The reason for this difference lay in the existence of the Solid South as a Democratic section with almost no Republican voters. This section sent delegates to the Republican National Convention as did the rest of the country, but, since these delegates did not represent voters, they came to represent those who were prepared to pay their expenses to the Republican National Convention. In this way these delegates came to represent the business interests of the North, whose money they accepted. Mark Hanna has told us in detail how he spent much of the winter of 1895-1896, in Georgia buying over two hundred delegates for McKinley to the Republican National Convention of 1896. As a result of this system, about a quarter of the votes in a Republican Convention were 'controlled' votes from the Solid South, not representing the electorate. After the split in the Republican Party in 1912, this portion of the delegates was reduced to about 17 percent.

The Inability of the Bankers and Business Leaders to Control the Democratic Convention of 1896

"The inability of the investment bankers and their industrial allies to control the Democratic Convention of 1896 was a result of the agrarian discontent of the period 1868-1896. This discontent in turn was based, largely, on the monetary tactics of the banking oligarchy. The bankers were wedded to the gold standard for reasons we have already explained. Accordingly, at the end of the Civil War, they persuaded the Grant Administration to curb the postwar inflation and go back on the gold standard (crash of 1873 and resumption of specie payments in 1875). This gave bankers a control of the supply of money which they did not hesitate to use for their own purposes, as Morgan ruthlessly pressurized Cleveland in 1893-1896. The bankers' affection for low prices was not shared by the farmer, since each time prices of farm products went down the burden of farmers' debts (especially mortgages) became greater. Moreover, farm prices, being much more competitive than industrial prices, and not protected by a tariff, fell much faster than industrial prices, and farmers could not reduce costs or modify their production plans nearly so rapidly as industrialists could.

Systematic Exploitation of the Agrarian Sectors by the Financial and Industrial Sectors

"The result was a systematic exploitation of the agrarian sectors of the community by the financial and industrial sectors. This exploitation took the form of high industrial prices, high (and discriminatory) railroad rates, high interest charges, low farm prices, and a very low level of farm services by railroads and the government. Unable to resist by economic weapons, the farmers of the West turned to political relief, but were greatly hampered by their reluctance to vote Democratic (because of their memories of the Civil War). Instead, they tried to work on the state political level through local legislation (so-called Granger Laws) and set up third-party movements (like the Greenback Party in 1878 or the Populist Party in 1892).

The Capture of the Democratic Party by the Agrarian Forces

"By 1896, however, agrarian discontent rose so high that it began to overcome the memory of the Democratic role in the Civil War. The capture of the Democratic Party by these forces of discontent under William Jennings Bryan in 1896, who was determined to obtain higher prices by increasing the supply of money on a bimetallic rather than a gold basis, presented the electorate with an election on a social and economic issue for the first time in a generation. Though the forces of high finance and of big business were in a state of panic, by a mighty effort involving large-scale spending they were successful in electing McKinley.

The Financial Power Seeks to Control both Major Political Parties

"The inability of plutocracy to control the Democratic Party as it had demonstrated it could control the Republican Party, made it advisable for them to adopt a one-party outlook on political affairs, although they continued to contribute to some extent to both parties and did not cease their efforts to control both. In fact on two occasions, in 1904 and in 1924, J. P. Morgan was able to sit back with a feeling of satisfaction to watch a presidential election in which the candidates of both parties were in his sphere of influence. In 1924 the Democratic candidate was one of his chief lawyers, while the Republican candidate was the classmate and handpicked choice of his partner, Dwight Morrow. Usually, Morgan had to share this political influence with other sectors of the business oligarchy, especially with the Rockefeller interests (as was done, for example, by dividing the ticket between them in 1900 and in 1920).

America Grew Restless in 1890-1900

"The agrarian discontent, the growth of monopolies, the oppression of labor, and the excesses of Wall Street financiers made the country very restless in the period 1890-1900. All this could have been alleviated merely by increasing the supply of money sufficiently to raise prices somewhat, but the financiers in this

period, just as thirty years later, were determined to defend the gold standard no matter what happened. In looking about for some issue which would distract public discontent from domestic economic issues, what better solution than a crisis in foreign affairs? Cleveland had stumbled upon this alternative, more or less accidentally, in 1895 when he stirred up a controversy with Great Britain over Venezuela. The great opportunity, however, came with the Cuban revolt against Spain in 1895. While the 'yellow press,' led by William Randolph Hearst, roused public opinion, Henry Cabot Lodge and Theodore Roosevelt plotted how they could best get the United States into the fracas. They got the excuse they needed when the American battleship *Maine* was sunk by a mysterious explosion in Havana harbor in February 1898. In two months the United States declared war on Spain to fight for Cuban independence. The resulting victory revealed the United States as a world naval power, established it as an imperialist power with possession of Puerto Rico, Guam, and the Philippines, whetted some appetites for imperialist glory, and covered the transition from the long-drawn age of semidepression to a new period of prosperity. This new period of prosperity was spurred to some extent by the increased demand for industrial products arising from the war, but even more by the new period of rising prices associated with a considerable increase in the world production of gold from South Africa and Alaska after 1895.

America's Entrance Upon the World Stage

"America's entrance upon the state as a world power continued with the annexation of Hawaii in 1898, the intervention in the Boxer uprising in 1900, the seizure of Panama in 1903, the diplomatic intervention in the Russo-Japanese War in 1905, the round-the-world cruise of the American Navy in 1908, the military occupation of Nicaragua in 1912, the opening of the Panama Canal in 1914, and military intervention in Mexico in 1916.

Superficial Concessions by the Wealthy

"During this same period, there appeared a new movement for economic and political reform known as Progressivism. The Progressive movement resulted from a combination of forces, some new and some old. Its foundation rested on the remains of agrarian and labor discontent which had struggled so vainly before 1897. There was also, as a kind of afterthought on the part of successful business leaders, a weakening of acquisitive selfishness and a revival of the older sense of social obligation and idealism. To some extent this feeling was mixed with a realization that the position and privileges of the very wealthy could be preserved better with superficial concessions and increased opportunity for the discontented to blow off steam than from any policy of blind obstructionism on the part of the rich. As an example of the more idealistic impulse we might mention the creation of the various Carnegie foundations to work for universal peace or to extend scholarly work in science and social studies. As an example of the more practical

point of view we might mention the founding of *The New Republic* a 'liberal weekly paper,' by an agent of Morgan financed with Whitney money (1914). Somewhat similar to this last point was the growth of a new 'liberal press,' which found it profitable to print the writings of 'muckrakers,' and thus expose to the public eye the seamy side of Big Business and of human nature itself. But the great opportunity for the Progressive forces arose from a split within Big Business between the older forces of financial capitalism led by Morgan and the new forces of monopoly capitalism organized around the Rockefeller bloc. As a consequence, the Republican Party was split between the followers of Theodore Roosevelt and those of William Howard Taft, so that the combined forces of the liberal East and the agrarian West were able to capture the Presidency under Woodrow Wilson in 1912.

The Unconscious Hypocrisy of Woodrow Wilson

"Wilson roused a good deal of popular enthusiasm with his talk of 'New Freedom' and the rights of the underdog, but his program amounted to little more than an attempt to establish on a Federal basis those reforms which agrarian and labor discontent had been seeking on a state basis for many years. Wilson was by no means a radical (after all, he had been accepting money for his personal income from rich industrialists like Cleveland Dodge and Cyrus Hall McCormick during his professorship at Princeton, and this kind of thing by no means ceased when he entered politics in 1910), and there was a good deal of unconscious hypocrisy in many of his resounding public speeches. Be this as it may, his political and administrative reforms were a good deal more effective than his economic or social reforms. The Clayton Antitrust Act and the Federal Trade Commission Act (1913) were soon tightly wrapped in litigation and futility. On the other hand, the direct election of senators, the establishment of an income tax and of the Federal Reserve System, and the creation of a Federal Farm Loan System (1916) and of rural delivery of mail and parcel post, as well as the first steps toward various laboring enactments, like minimum wages for merchant seamen, restrictions on child labor, and an eight-hour day for railroad workers, justified the support which Progressive had given to Wilson. (Carroll Quigley, *Tragedy and Hope*, pp. 70-76.)

Part VII – The Ultimate Aim of the Powers of Financial Capitalism

Quigley's statements demonstrate the importance of studying money and banking in order to fully understand international affairs. Quigley summarizes the main objectives of the powers of finance capitalism as follows:

"The powers of financial capitalism had another far-reaching aim, nothing less than to create a world system of financial control in private hands able to dominate the political system of each country and the economy of the world as a whole. This system was to be controlled in a feudalist fashion by the central banks of the world acting in concert, by secret agreements arrived at in frequent private meetings and

conferences. The apex of the system was to be the Bank for International Settlements in Basle, Switzerland, a private bank owned and controlled by the world's central banks which were themselves private corporations. Each central bank, in the hands of men like Montagu Norman of the Bank of England, Benjamin Strong of the New York Federal Reserve Bank, Charles Rist of the Bank of France, and Hjalmar Schacht of the Reichsbank, sought to dominate its government by its ability to control Treasury loans, to manipulate foreign exchanges, to influence the level of economic activity in the country, and to influence cooperative politicians by subsequent economic rewards in the business world.

The Role of the Bank for International Settlements

"In each country the power of the central bank rested largely on its control of credit and money supply. In the world as a whole the power of the central bankers rested very largely on their control of loans and of gold flows. In the final days of the system, these central bankers were able to mobilize resources to assist each other through the B.I.S., where payments between central banks could be made by bookkeeping adjustments between the accounts which the central banks of the world kept there. The B.I.S. as a private institution was owned by the seven chief central banks and was operated by the heads of these, who together formed its governing board. Each of these kept a substantial deposit at the B.I.S., and periodically settled payments among themselves (and thus between the major countries of the world) by bookkeeping in order to avoid shipments of gold. They made agreements on all the major financial problems of the world, as well as on many of the economic and political problems, especially in reference to loans, payments, and the economic future of the chief areas of the globe.

The Apex of the Structure of Financial Capitalism

"The B.I.S. is generally regarded as the apex of the structure of financial capitalism whose remote origins go back to the creation of the Bank of England in 1694 and the Bank of France in 1803. As a matter of fact its establishment in 1929 was rather an indication that the centralized world financial system of 1914 was in decline. It was set up rather to remedy the decline of London as the world's financial center by providing a mechanism by which a world with three chief financial centers in London, New York, and Paris could still operate as one. The B.I.S. was a vain effort to cope with the problems arising from the growth of a number of centers. It was intended to be the world cartel of ever-growing national financial powers by assembling the nominal heads of these national financial centers.

The Commander-in-Chief of the World Banking System

"The commander in chief of the world system of banking control was Montagu Norman, Governor of the Bank of England, who was built up by the private

bankers to a position where he was regarded as an oracle in all matters of government and business. In government the power of the Bank of England was a considerable restriction on political action as early as 1819 but an effort to break this power by a modification of the bank's charter in 1844 failed. In 1852, Gladstone, then chancellor of the Exchequer and later prime minister, declared, 'The hinge of the whole situation was this: the government itself was not to be a substantive power in matters of Finance, but was to leave the Money Power supreme and unquestioned.'

The Tremendous Power of the Bank of England

"This power of the Bank of England and of its governor was admitted by most qualified observers. In January, 1924, Reginald McKenna, who had been chancellor of the Exchequer in 1915-1916, as chairman of the board of the Midland Bank told its stockholders: 'I am afraid the ordinary citizen will not like to be told that the banks can, and do, create money. . . . And they who control the credit of the nation direct the policy of Governments and hold in the hollow of their hands the destiny of the people.' In that same year, Sir Drummond Fraser, vice-president of the Institute of Bankers, stated, 'The Governor of the Bank of England must be the autocrat who dictates the terms upon which alone the Government can obtain borrowed money.' On September 26, 1921, *The Financial Times* wrote, 'Half a dozen men at the top of the Big Five Banks could upset the whole fabric of government finance by refraining from renewing Treasury Bills.' Vincent Vickers, who had been a director of the bank for nine years, said, 'Since 1919 the monetary policy of the Government has been the policy of the Bank of England the policy of the Bank of England has been the policy of Mr. Montagu Norman.' On November 11, 1927, the *Wall Street Journal* called Mr. Norman 'the currency dictator of Europe.' This fact was admitted by Mr. Norman himself before the court of the bank on March 21, 1930, and before the Macmillan Committee five days later.

The Position of Montagu Norman

"Montagu Norman's position may be gathered from the fact that his predecessors in the governorship, almost a hundred of them, had served two-year terms, increased rarely, in times of crisis, to three or even four years. But Norman held the position for twenty-four years (1920-1944), during which he became the chief architect of the liquidation of Britain's global preeminence. . . .

Montagu Norman Works in Close Concert With Benjamin Strong

"Norman had a devoted colleague in Benjamin Strong, the first governor of the Federal Reserve Bank of New York. Strong owed his career to the favor of the Morgan Bank, especially of Henry P. Davison, who made his secretary of the Bankers Trust Company of New York (in succession to Thomas W. Lamont) in 1904, used him as Morgan's agent in the banking rearrangements following the

crash of 1907, and made him vice-president of the Bankers Trust (still in succession to Lamont) in 1909. He became governor of the Federal Reserve Bank of New York as the joint nominee of Morgan and of Kuhn, Loeb, and Company in 1914. Two years later, Strong met Norman for the first time, and they at once made an agreement to work in cooperation for the financial practices they both revered.

"These financial practices were explicitly stated many times in the voluminous correspondence between these two men and in many conversations they had, both in their work and at their leisure (they often spent their vacations together for weeks, usually in the south of France).

Forcing the Major Countries to Go on the Gold Standard

"In the 1920's, they were determined to use the financial power of Britain and of the United States to force all the major countries of the world to go on the gold standard and to operate it through central banks free from all political control, with all questions of international finance to be settled by agreements by such central banks without interference from governments.

Central Bankers – Agents and Technicians of the Dominant Investment Bankers

"It must not be felt that these heads of the world's chief central banks were themselves substantive powers in world finance. They were not. Rather, they were the technicians and agents of the dominant investment bankers of their own countries, who had raised them up and were perfectly capable of throwing them down.

The Substantive Financial Powers of the World

"The substantive financial powers of the world were in the hands of these investment bankers (also called 'international' or 'merchant' bankers) who remained largely behind the scenes in their own unincorporated private banks. These formed a system of international cooperation and national dominance which was more private, more powerful, and more secret than that of their agents in the central banks. This dominance of investment bankers was based on their control over the flows of credit and investment funds in their own countries and throughout the world. They could dominate the financial and industrial systems of their own countries by their influence over the flow of current funds through bank loans, the discount rate, and the rediscounting of commercial debts; they could dominate governments by their control over current government loans and the play of the international exchanges.

Men Capable of Bringing Off Successful Financial Coups

"Almost all of this power was exercised by the personal influence and prestige of men who had demonstrated their ability in the past to bring off successful financial coups, to keep their word, to remain cool in a crisis, and to share their winning opportunities with their associates. In this system the Rothschilds had been preeminent during much of the nineteenth century, but, at the end of that century, they were being replaced by J. P. Morgan whose central office was in New York, although it was always operated as if it were in London (where it had, indeed, originated as George Peabody and Company in 1838). Old J. P. Morgan died in 1913, but was succeeded by his son of the same name (who had been trained in the London branch until 1901), while the chief decisions in the firm were increasingly made by Thomas W. Lamont after 1924." (Carroll Quigley, *Tragedy and Hope*, pp. 324-327.)

The preceding quotations by Carroll Quigley outline the development of the international banking system in operation today.

Part VIII – A World System of Financial Control in Private Hands

As one surveys the world of today it appears that the powers of financial capitalism have nearly accomplished their goal to create a "world system of financial control in private hands able to dominate the political system of each country and the economy of the world as a whole." (Carroll Quigley, *Tragedy and Hope*, p. 324.) Today's international economic system consists of: central banks in every major country, the Bank for International Settlements, the International Monetary Fund, the World Bank, the World Trade Organization, the Organization for economic Cooperation and Development, regular economic summits, the international banking system and the multinational corporate structure.

Undoubtedly the most powerful faction or special interest group in the world is the international banking fraternity – the international bankers, merchant bankers, private bankers and investment bankers. The successful strides of the Houses of Rothschild, Warburg, Morgan, Rockefeller and others, toward global governance, or a world system of financial control in private hands, is a matter of public record. The world today is sitting on the edge of a new era. Many people wonder whether the foundation built by the powers of financial capitalism and a multitude of elite planners is capable of weathering the challenges of the 21st century. Perhaps only time will tell. There is a multitude of challenges, perplexities and problems facing the world of banking. Although many dedicated and intelligent men and women are attempting to steady the bankers' luxury liner, many candid geopolitical observers wonder how long a ship built with questionable tools and materials can stay afloat.

4. International Investment Bankers – Financial Engineering of Corporate Takeovers

Part I – The Financial Core of Monopoly Capitalism

Investment bankers are among the most influential citizens in the world. Clustered in small groups in prominent cities such as New York, Boston, London, Frankfurt, Paris, Tokyo, etc., these men wield more power than kings, presidents, prime ministers and government officials. They control the economies of not only the Western World but the entire world. Their daily decisions affect every person on the earth. A great deal of mystique and secrecy surround these very private bankers, no doubt due to the tremendous amount of power and influence which they command. Their long-range goal, which is shared by their elite partners (the international bankers and corporate directors) is to create "a world system of financial control in private hands able to dominate the political system of each country and the economy of the world as a whole." (Carroll Quigley, *Tragedy and Hope*, p. 324.) T. A. Wise pointed out the tremendous power accumulated by investment bankers as follows:

"The hard financial core of capitalism in the free world is composed of not more than sixty firms, partnerships, and corporations, owned or controlled by some 1,000 men. These men head investment-banking houses in New York City, merchant-banking ventures in London, banques d'affaires in Paris, and similar institutions in Belgium, the Netherlands, Italy, Germany, Sweden, and Australia. Among them they raise, directly or indirectly, an estimated 75 percent of the \$40 billion in fresh capital needed each year to fuel the long-term growth of the industrialized nations.

"In Paris the important banques d'affaires include the Banque de Paris et des Pays-Bas, Credit Lyonnais, Banque Worms, Banque Rothschild – and Lazard Freres. In London there are perhaps a dozen major merchant bankers, including such leading ones as N. M. Rothschild, Morgan Grenfell, S. G. Warburg – and Lazard Brothers. In New York, two dozen investment bankers dominate the world's largest capital market; they include Morgan Stanley, Lehman Brothers, First Boston Corp. – and Lazard Freres...." (*Fortune*, August 1968, p. 101.)

The Power of the Investment Bankers on Wall Street

Investment bankers are the hub of the financial community in New York, London, Paris, etc. In the United States, Wall Street stands pre-eminent among the financial centers of the world.

Concerning the impact of investment bankers on Wall Street, *Newsweek* magazine noted:

"Standing in the visitors' gallery above the teeming floor of the New York Stock Exchange this week, or watching a clacking ticker in Cedar Rapids, even the dullest observer might imagine the stock market as the throbbing heart of the whole U.S. economy. Yet, in fact, it is more like the pulse than the heart – measuring a flow of billions from investor to investor, which does little in itself to strengthen business. The give and take of trading is not an economic heart for the simple reason that it pumps no blood.

"The real pumping is done in another part of Wall Street, in the offices of some 100 investment bankers whose job is to underwrite and sell new securities. They know where the real money can be found in the endless swirl of paper values that runs through the markets from bank vault to bank vault: they know how to put it to work setting bricks in place and creating jobs for millions. The investment banker diverts billions of dollars – some \$20 billion last year in corporate securities, another \$7.1 billion in municipal bonds – from the paper chain into plants, machinery, inventory, working capital, and other solid assets for business and the U.S. economy. It is through the investment banker that Wall Street exerts its real impact on the economy. He stands at the head of the Street, and everything else on the Street is in a real sense an adjunct and a support for his essential job...." (*Newsweek*, October 23, 1961, p. 82.)

A Financial Power Owns the U.S. Government

The power and influence of Wall Street was pointed out by President Franklin D. Roosevelt in a letter dated November 23, 1933, to Colonel Edward Mandell House. Roosevelt said, "[T]he real truth of the matter is, as you and I know, that a financial element in the large centers has owned the government ever since the days of Andrew Jackson...." (*F.D.R.: His Personal Letters*, New York, Duell, Sloan and Pearce, 1950, p. 373.)

Part II – The Wall Street-Washington Complex

Since the days of the First Bank of the United States, bankers and corporate directors have wielded command over the economy and credit of this nation. Today, Wall Street's power and influence is felt in every nation on the earth. One writer, John Thackray, outlined the power which Wall Street has over the U.S. Government. In an article entitled, "The Washington-Wall Street Complex," he said:

"During these times of great concern about the nation's political institutions, the press and the populace at large have expressed growing discontent about the vague, informal concentrations of political power that so often appear to exercise a hold on the workings of our democracy. Whatever the genesis of such concentrations, they seem to have a number of characteristics in common: They are in part invisible, they are self-perpetuating and they deal in a kind of power that never was mentioned in the Constitution. Some of these entities are quite real, such as the

Military-Industrial Complex to which President Dwight Eisenhower gave name, while others are probably more illusory...

Interaction Between Financial Powers and the U.S. Government

"What about the financial community? There has long been a kind of interaction between the wielding of financial power and the administration of our government's policies. But how pervasive is it? To find out *Institutional Investor* researched the Washington-Wall Street Complex, as we've christened it, and discovered that it is much larger and much broader than many people might have suspected. The 167 names listed include a wide variety of people, ranging from former regulators who have shifted over to the side of those they once regulated, to well-known leaders in the Street, who have never actually worked in Washington – yet who by virtue of their fund-raising abilities and connections exercise considerable clout. Most Complex members have served the U.S. government or its agencies to one extent or another. And although they form a unique type of 'old boy' network..., and some members are supremely unaware of belonging to any such Complex, even if they are touched by it all the time.

Members of the Wall Street-Washington Complex Bound Together by a Common Set of Understandings

"To describe the Complex, it is first necessary to realize that its members are bound together by a common set of understandings, of similar claims to insight and knowledge, not the least of which involve the workings of the legislative process. The majority, as we said, have served the Federal government, in posts ranging from high Cabinet levels to legal jobs, say, at the Securities and Exchange Commission. Now they work in the Street in positions of varying influence – sometimes in the most tangential of consulting assignments.... There are a number of men in Washington right now – earning their spurs for a return to the Complex, as most traditionally do. Yet if there is a single unifying force in all this, it is that such involvement with government and politics can change a man, in terms of who he is, who he thinks he is, his perceptions of how the world works – as well as his access to the corridors of power. He is, and many of those who have worked in Washington stress this point, different from others who lack this experience....

"The Complex expanded considerably in the mid-1960s. Investment houses, faced with ever more demanding regulation and compliance issues of the period, turned increasingly to SEC staffers for help. They soon found that some of the most savage regulators could be quickly tamed, and their talents and knowledge of the laws could be exploited. In 1965, for instance, John Cione, nicknamed 'The Enforcer,' for his toughness at the SEC's Northern Regional Office, became the legal bulldog at what is now Blyth Eastman Dillon. In later years, more SECers followed his trail.

"A lot of people from the SEC's Division of Trading and Markets have gone into firms compliance work, because compliance questions became a bigger problem, and the regulations more complicated,' explains Fred Siesel, assistant to the chairman at Weeden & Co., and himself a former SEC economic analyst. It goes without saying, of course, that Wall Street had something else going for them: the ability to pay more than the government does.

"Simultaneously, member firms became more concerned about what was happening on the Washington legislative front, as well as more worried about impending forced changes in the industry's structure. Likewise, for the past five years, the SEC has been more deeply involved than ever before in trying to fathom – and unravel – the economics of the securities business. For this reason, it is said, William Casey, as chairman of the Commission, actively sought more industry personnel to work there. Whether it is a comment on this – or on the health of the business at large – a source within the SEC reports that even now there are more applications from industry men pending than the Commission can accept.

The Sub-Fraternity

"Not surprisingly, then, former SEC staffers comprise the most prominent sub-fraternity within the Complex. That includes not only enforces by investigators as well: many members of the 1963 Special Study team, for instance, have also switched sides. And some of them 'like to keep in touch with one another, in case there is an emergency and we need to call for help,' says Bertram C. Singer, a former SEC trial attorney who is now vice president and general counsel with Cantor, Fitzgerald. Indeed, in Los Angeles, where Singer is stationed, there is an informal lunch club, called the Roundtable, whose members are former SECers now active in the securities business.

"While the Complex is pitted with all kinds of informal groupings and clusters, based on anything from old friendships to new concerns, there are different shadings and colorings to the power wielded. In fact, even though the SEC is the biggest supplier of Complex members – a total of 72, according to our investigations – some of these people, as Wall Streeters, don't carry appreciable power or influence. On the other hand, within the investment banking business, the World Bank seems to be a favorite stamping ground for Complex recruits. No fewer than three Morgan Stanley partners have served there. It is worthy of note that in the past twenty years, Morgan Stanley has also been the manager or co-manager of some \$3.2 billion worth of World Bank underwritings.

The Exercise of Power in Washington

"Needless to say, a certain glamour and sex-appeal attaches itself to those who have once exercised Washington power. Kuhn, Loeb, for instance, has more members of the Complex than anyone else, our reporting shows, followed closely by A.G. Becker, First Boston, Goldman Sachs and Lehman Brothers. It's likely, in

fact, that the number of Complex members is only exceeded by the number of those who'd like to join – under the right circumstances. It is not uncommon on Wall Street for a man to float a rumor about an imminent transfer to the halls of Washington, as a way of inflating what might be a flagging reputation, or simply bidding for an appointment.

"In Washington, on the other hand, many are only too aware that the clock is running out on their government jobs and are already preparing for the day when they will desert their posts – to join for the first time, or to return to, the securities industry. There is, in fact, a rather sharp contradiction here. While many civil servants have dedicated themselves to the relatively low-paying, but rewarding, life of public service, others view their Washington jobs as a short-term way of enhancing their value on the job market. 'The SEC,' says one current SEC staffer who intends to move back to the Street before long 'is the best post-graduate business course there is in the investment industry.'

Stars of the Wall Street Firms

"To be sure, there are some people who have entered the Complex only to pull out again hastily. One noteworthy example is Lawrence O'Brien, politician and former chairman of the Democratic National Committee, who served a brief hitch as president of the ill-fated McDonnell & Co. Then, too, some of the illustrious Complex members who have been successful and who have stayed in positions of influence in the Street haven't always performed as well as might have been hoped. For instance, George Ball, former Undersecretary of State, was supposed to do great things for Lehman in the international area – yet Lehman's international business, so far at least, hasn't exactly bloomed under his direction. In addition, it might seem that Secretary of the Treasury is about as bright a star as can be found in the Washington constellations. Yet former Treasurer chief Henry Fowler, who is not a partner at Goldman, Sachs, has not, hints one senior partner, produced all the new investment banking business that could have been expected. Still, both men have added considerable luster to their firms.

The Real Power Base of Wall Street

"Wall Street is not without its opposition to the Complex. This most often takes the form of a grudging resentment toward the incursions made by famous Washington names into the Wall Street job and reputation market – in concert with the feeling that the real business of the Street is performed by inside men, trained and schooled in the industry for decades, and not some glamorous former Undersecretary or Assistant Secretary who might not even understand the jargon of the Street and whose function is, at least in part, to be a showcase for his and his firm's image.

One of the Most Illustrious Members of the Complex

"Still, public relations has to be considered as inherent in the game. After all, the typical Complex representative seems almost compulsively to capitalize on his personal intimacy with Washington's workings – be it specific knowledge or knowledge of who knows what. One of the most illustrious members of the Complex these days is Peter G. Peterson, chairman of Lehman Brothers, and former Secretary of Commerce in the Nixon Administration. When he was in Washington, Peterson was a close friend to – and political ally of – Henry Kissinger. And today, Peterson's business conversation and speeches are laced with enough references to and stories about what Kissinger did and said to tax the patience of even the most devoted collector of political trivia.

"On the other hand, there can be misfires, even on the public relations front. Some years ago, Charles Plohn, the new issues king, was attracting considerable attention at the SEC. Plohn hired Edward C. Jaegerman, a man with a 25-year-old SEC reputation as a tough and honest investigator. But this did not save Plohn from further SEC criticisms. Eventually Plohn failed, and Jaegerman was indicted, acquitted, and left the securities business. In another context, Maurice Stans, former Secretary of Commerce, who was once a member of the Complex as head of Glore Forgan, was recently acquitted in the Vesco case.

A Wide Diversity of Members Comprise the Complex

"In any event, the Washington-Wall Street Complex, as defined by *Institutional Investor*, today has a wide diversity of members, with differing ranks and status. Our research effort, headed up by Assistant Editor Janice Holling, has collected the names and credentials presented in the accompanying table. And our method was to ask the most visible former Washingtonians about themselves and others of whom they know. These, in turn, were tracked down and interviewed, the same questions being asked of them, and so on. Admittedly, the procedure isn't foolproof and some omissions are inevitable. In addition, some sources declined to cooperate with our reporters. And since a subsequent article on this issue deals with the so-called Washington 'listening posts,' we have here included only the heads of those organizations owned or most intimately associated with brokerage firms. Other deliberate omissions range from the case of Secretary of State Henry Kissinger, who in the past has served as a consultant to Mitchell, Hutchins, and such links as the fact that the daughter of Paine, Webber chief James Davant is married to the son of Colorado Senator Peter Dominick.

Members of the Wall Street-Washington Complex

"For the records, then, the classifications are our own, and they can be characterized as follows:

Dress Circle. At the top of the heap is a tiny handful of Wall Streeters who have never really worked in Washington – except to serve on occasional blue-ribbon commissions – yet who seem to wield power whichever political party is in office. The reason is that they are tops among the Street's political fund-raisers and they have a lot of markers in Washington, which they can call.

Superstars. The glamour that attaches itself to high-level political jobs isn't lost on the Street's former Cabinet-level officers, Under-secretaries of the various Cabinet-level departments and other luminaries often hold their standing when they switch.

Stars. Some men of slightly lesser magnitude than the Washington Superstars – including former Assistant Secretaries and those who served in other key, but non-Cabinet-level, positions – have made it big in the Street.

Gentlemen Callers. While most members of the Complex have fairly impressive calling cards, some are more equal than others. These include some grand old men who long stalked the corridors of power and now have relatively tangential relationships to the Street – as well as policy makers in fields like economics, who now have at least part-time consulting jobs.

Trainees. Wall Street continuously provides fresh recruits for government service, even during times such as these, when public scrutiny of politics and politicians can cause less-than-happy experiences. When Wall Streeters are working in Washington, they can be considered in training for a position in the Complex – since they so often return to work in the financial community.

Round-Trippers. Nothing is immutable, however; not even in the complex. A number of members have returned to work in Washington for a second time.

Handymen. Throughout the financial world there is a sprinkling of former Congressional aides – and people who undertook similar assignments in Washington – who have now crossed over into the Complex and have found a home within it.

Former Cops. Since the SEC is the watchdog of the securities industry, many SEC staffers grow up as policemen and investigators. They're usually lawyers, and they more than earn their pay by knowing what is permissible, what is not permissible – and what might be.

Technocrats. A lot of power is not the power to get things done, but to find out what is happening, or who is making it happen. Accurate, up-to-date information about a Washington matter is often a very scarce commodity – and the individuals who can develop it for firms as well as self-regulatory agencies are extremely valuable to have around.

"What, then, does it all add up to? How much real political power does the Washington-Wall Street Complex actually exercise?"

An Important and Pervasive Force

"... [I]t's clear that something is in place here, something that amounts to an important and pervasive force. It is a force with many arms and many faces – some very powerful, others not necessarily so powerful. Yet its sheer size makes the Washington-Wall Street Complex something to watch in the years ahead – for big as it is, it is likely to get a lot bigger." (*Institutional Investor*, May, 1974, pp. 58-59, 63.)

Part III – Services Provided by Investment Bankers

The article by Thackray only touched the tip of the iceberg, nevertheless, it did document the existence of a Wall Street-Washington Complex which "is much larger and much broader than many people might have suspected." Their influence on government policies over the last twelve decades is staggering.

Besides influencing government policies, goals and legislation to achieve their long-range goals, investment bankers provide a wide range of services to its clients – investors and corporations. Some of the financing services of investment bankers include:

- Corporation underwritings

- Private placements

- Lease financings

- Mergers, acquisitions and divestitures

- Real estate financings and sales

- International public offerings

- International private placements

- Domestic and international project financings

- Industrial revenue bond and pollution control financings

- Commercial paper issuance

- Corporate stock repurchasing

- Registered and non-registered secondary offerings

Underwritten redemption of securities

Sinking fund purchases

Investments for temporary excess cash

Exchange offerings and tender offers

Hedging in financial futures

Government agency financings

State and municipal financings

Financing services for foreign governments and agencies

Financial advisory and evaluation services

The Investing services of the bankers include:

Investment research

Economic forecasting

Money market and bond market analysis

Investment strategy

Block trading

Special order service

Equity securities, listed and over-the-counter

Foreign securities trading

Convertible stocks and bonds

Domestic and international securities arbitrage

Listed options trading

Debt and equity securities swaps

Restricted brokerage transactions

Commercial paper

Government and Federal agency securities

Bankers acceptances

Certificates of deposit

Corporate bonds, notes and preferred stocks

Mortgage-backed securities

Tax-exempt bonds

Securities from managed offerings and participations

Part IV – A Brief Look at an Investment Banking House

In order to understand the services which investment bankers provide and the role they play in the world of international finance, it is necessary to take a brief look inside one of the more prominent investment houses. I have chosen Lazard Freres & Company, however, inasmuch as they provide almost identical services, I could have chosen Morgan Stanley, First Boston Corporation or Goldman Sachs. The following document describes the activities, a brief history, and the services of Lazard Freres & Company in New York City:

Introduction to Lazard Freres

"The investment banking activities of Lazard Freres & Company involve concentration on a select group of important corporate clients. This Firm seeks to focus its strengths on a banking relationship where the opportunity is present for making a material contribution to the success of the client's enterprise. The unique nature of Lazard Freres – the knowledge, relationships, and creativity of its people – makes it ideally suited to serve as investment banker for such companies.

A Worldwide Network of Relationships

"Lazard Freres is a relatively small, closely-knit organization distinguished by its abilities to develop new domestic or international financing techniques when acting as financial advisor to corporate and governmental clients. The Firm's reputation as a creator and executor of major financial transactions rests upon its intimate knowledge of U.S. domestic and international capital markets, its worldwide network of relationships and the accumulated experience and talent of the personnel upon whom it is able to draw. Historically, Lazard Freres has been willing to commit its own capital in venture or turnaround situations which gives the firm a background of operating and industrial experience unavailable to most

of its competitors. A number of its active partners have had business operating and management careers in addition to their experience as investment bankers.

Financial Engineering

"Lazard Freres is involved in a wide range of activities for its corporate clients including domestic and international corporate finance, underwritings, private placements, mergers and acquisitions, project finance, lease financing, and real estate development and finance. It is also an important factor in municipal finance, venture capital and money management. The Firm is proud of its record for quality service and its accomplishments in financial "engineering" in difficult and complex transactions.

"Lazard Freres maintains an institutional bond and stock distribution capability designed to conduct brokerage, trading and securities placement relationships with the top 200 institutions in the nation and, through its affiliated firms in the United Kingdom and France, with the major institutions internationally. This capability enables the firm to provide corporate clients with timely capital market judgements and efficient execution independently from any need to meet overheads or generate trading and distribution profits.

History of Lazard Freres

"Lazard Freres and Company was founded in New Orleans in 1848 and is among the oldest banking partnerships in the United States. Since then, the Firm, now based in New York, has become a leading U.S. investment bank. Subsequent to the formation of Lazard Freres & Company, the associated but independent firms of Lazard Freres et Cie. in Paris and Lazard Brothers & Company, Limited in London were founded. All three firms cooperate closely with each other in order to provide their multinational group of clients with financial services on a global basis. One or the other of the three Lazard banks is a member of the major U.S. stock exchange, the Paris Bourse and has associations in Zurich, Rome, Singapore, Hong Kong, Tokyo and Seoul. Recently, Lazard Brothers & Company, Limited has invested capital as a limited partner in Lazard Freres & Company. The senior partner of both Lazard Freres & Company and Lazard Freres et Cie. is Michel David-Weill who succeeded Andre Meyer in New York at the end of 1977.

Financial Advisor to Key Corporations

"Historically, Lazard Freres has acted as financial advisor in the development of many major corporations, with partners of the Firm working closely with the top management to devise corporate strategy, financial planning and acquisition philosophy, and to execute financings and acquisitions. Over the years and continuing today, Lazard Freres has advised such corporations as ITT, RCA, Allied Chemical, Corning Glass, Englehard Minerals, Newmont Mining, Owens-Illinois, General Dynamics, Pfizer, Allis-Chalmers, among others.

"The Firm has demonstrated especially its expertise in advising large corporations and governments during periods of difficulty. At crucial times, Lazard Freres has acted as financial advisor to Lockheed, Allis-Chalmers, Eastern Airlines, Boise Cascade and Chrysler, as well as Indonesia and New York City, providing material assistance and unconventional solutions.

Handling of Private Placements

"The Firm has been called in to handle two of the largest private placements in recent years, both of which equaled or exceeded \$500 million – one to finance the construction of a petro-chemical facility at Corpus Christi, Texas for a joint venture consisting of Union Pacific, ICI and Solvay Company; the other, to finance the acquisition of Peabody Coal.

Serving a Select Group of Clients

"Lazard Freres concentrates its efforts on servicing a select group of corporate, governmental and municipal clients. In order to maintain this focus it has eschewed expansion into retail brokerage or dealing in common stocks as a principal. Through its specialized sales and trading operation, the Firm maintains daily contact with the major investing institutions and money centers in the U.S. and, through its international associations, abroad.

"Lazard Freres sells and maintains positions in corporate and municipal bonds. The firm sells and trades equity securities and is a member of the New York Stock Exchange. The Firm has an important Equity Research Department which was created to service its money management effort, but which is able to render valuable advice to the firm's corporate clients. The firm is an active manager of and participant in negotiated and competitive corporate and municipal issues, and forms and runs syndicates to distribute the securities. The Firm is thus able to provide its clients with sound judgement on price and timing of issues. It has also been able to identify major low cost opportunities in the private market as they occur.

"As a manager of corporate and municipal issues, the firm has a syndicate department which solicits indications of interest from major institutional purchasers, underwriters and dealers. The Firm has consistently sold in excess of its underwriting position in debt issues in which it has acted as manager or co-manager This has also been true in the case of equity issues where there was a strong institutional interest. In cases where strong retail interest is indicated, the firm has recommended certain co-managers with strong retail distribution capabilities.

Purchase of Major Holdings in Other Corporations

"Among the related services which the firm is able to provide for its corporate clients and their managements are execution services in listed securities. The Firm performs sales of 'restricted' stock under Rules 133, 144 and 145, shelf registrations and the purchase of a client's own common stock in the market and from known large holders. As an adjunct to its merger and acquisition activity, the firm is able to purchase in the market major holdings in other corporations on behalf of its clients. In conjunction with these activities, the firm conducts appraisals and valuations for tax, stock options and other purposes.

Attracting New Clients

"In recent years, Lazard Freres has been successful in attracting a number of clients who are new to the firm. In many cases, the loyalties of these new clients has been cemented by the execution of an assignment in which the firm has been able to add considerable value because of its creativity and expertise. Recently, companies like Reliance Electric, Studebaker-Worthington, United Technologies, Norton Simon and the Continental Group have decided to involve Lazard Freres in their corporate finance business. The Firm is also working with a number of clients in the extractive industries including Ashland Oil and Kennecott.

Mergers and Acquisitions

"Lazard Freres is particularly known for its activities and successes in corporate acquisitions and tender offers.... It has negotiated numerous major acquisitions for corporations and investors both in the United States and abroad.

"In addition to transactions in which Lazard Freres has represented the acquiror, the Firm has also represented the seller in a number of significant transactions, and has often been called upon to render advice to corporations wishing to dispose of a division or redeploy its assets through sale or joint venture. The Firm has a great deal of experience in providing its opinion on the fairness of the financial terms of a proposed corporate transaction.

Extensive Expertise in Contested Transactions

"Numerous companies have sought the firm's advice when anticipating or confronted by an unsolicited tender offer. Our extensive expertise in contested transactions makes us particularly competent to advise companies in planning defense strategies against tenders.

"The Firm has wide experience in mergers and associated advisory services for life and casualty insurance companies and allied financial services companies and currently has a number of assignments of this nature. The Firm advised ITT in its acquisition of Hartford Fire Insurance and in its subsequent disposition of ITT

Hamilton Life and ITT Life of New York. The Firm also advised Continental Group in its acquisition of Richmond Corporation. It advised Ticor in connection with the acquisition of Constellation Reinsurance, and is currently providing advice in connection with its acquisition of Southern Pacific Company. The Firm represented AMIC during the negotiations with Merrill Lynch and Mutuelles Unies in its tender offer for shares of Appalachian National.

International Multi-Source Finance

"Internationally, the Firm has raised funds for numerous agencies and organizations in Europe, Latin America and Asia. The European Coal & Steel Community, the European Investment Bank and the Inter-American Development Bank have frequently sought funds in U.S. financial markets through its efforts, and the Central-American Bank for Economic Integration, the Private Investment Corporation of Asia, the Ivory Coast Development Bank and the Industrial Mining and Development Bank of Iran have utilized the Firm's resources to raise needed capital.

The Associated Firms of Lazard Brothers and Lazard Freres

"The associated firms of Lazard Brothers Limited and Lazard Freres et Cie. have broad experience with European and other international currency markets and the three firms together are able to advise on alternative financing opportunities in all markets. Lazard Freres has managed euro-bond financings for many U.S. corporations including Owens-Illinois, Nabisco, RCA, ITT, Monsanto, Corning Glass, Revlon and AMF.

"Lazard Freres has been a leader in developing instruments to assist emerging nations in achieving the necessary finance for infrastructure and natural resource development. The Firm has maintained a significant role in the development of such entities as the Ivory Coast Development Bank and the Private Investment Company of Asia. The Firm currently advises the governments of Indonesia, Turkey and Bagon in financial matters.

Project and Joint Venture Finance

"Because financing availability and cost are a critical element in the accomplishment of a major project, a financial advisor such as Lazard Freres is often engaged to assist in the design and structure of the financial and legal arrangements. The Firm's personnel have considerable experience in providing such advice to corporate and governmental clients all over the world. A good example of such a project was the Pipeline Sud European for which the financing was arranged jointly by Lazard Freres & Co. and Lazard Freres et Cie. The firms introduced the concept of throughout financing for oil pipelines in Europe.

Creative Financial Planning

"In many situations, Lazard Freres has been involved when innovative approaches are required. This has enabled the Firm to nurture its capability for creative financial planning. One example of this was the divestiture of Peabody Coal by Kennecott and its acquisition by a joint venture. In another transaction, the Firm was approached in 1977 by Champlin Petroleum Company, a subsidiary of Union Pacific, for the purpose of finding a suitable partner to exploit existing petroleum reserves. The Firm developed the idea of the formation of a joint venture between Champlin, The Solvay Company of Belgium and ICI to share a petro-chemical facility in Corpus Christi, Texas and assisted in the implementation of the project and the arrangement of the \$500 million private placement in the U.S. on behalf of the joint venture, which, like the Peabody placement, was one of the largest project private placements ever arranged. Lazard Freres made the transaction possible by bringing the partners together through its knowledge and understanding of their business needs and qualifications. The transaction typifies the Firm's ability to draw on many areas of expertise in order to create value for its clients.

"Lazard has recently become financial advisor to three major domestic energy projects, the \$12 billion Northwest Alaska Gas Project, the \$1.5 billion ETSI Coal Slurry Pipeline Project, and Southern Natural Resources.

Handling of Complex Negotiations

"All three Lazard houses have been involved in a wide variety of such projects in addition to those mentioned above. The Firm has acted as advisor on the sale of major oil and gas properties to Ashland Oil Corporation, Mobil Oil, ITT and others. It handled complex negotiations leading to the merger of Atlantic Richfield and the Sinclair Oil Company, as well as in a transaction by which Hess Oil Company acquired ownership of Amerada Corporation, a company launched by associates of Lazard Brothers & Company, Limited.

Advice to International Insurance Companies

"In addition to the advice to U.S. based insurance companies described above, the Firm through its associated firms Lazard Brothers and Lazard Freres et Cie. have close relationships with a number of major insurance companies around the world. Directors of Lazard Brothers hold the position of Chairman or Deputy Chairman of Friendly Provident Life, Royal Insurance and Sun Life, and have board representation at Legal and General, Sun Alliance and, until recently, Commercial Union and Phoenix. Lazard Freres et Cie. has a direct ownership in La France and Assicurazioni Generali." (Brochure, Lazard Freres, New York City, no date.)

Part V – America's Top Corporations and Their Investment Bankers

As the previous descriptive material on Lazard Freres demonstrates, investment bankers service the global and domestic corporations in a variety of ways. The following list includes several of the major companies and their investment banker: Etna Life Casualty – Morgan Stanley; American Airlines – Goldman Sachs; American Express – Salomon Brothers; AMF – Lazard Freres; Archer-Daniels-Midland – Salomon Brothers; Black & Decker – Lehman Brothers Kuhn Loeb; Borden – Morgan Stanley; Carter Hawley Hale Stores – Morgan Stanley; Chrysler – Lazard Freres and First Boston; Colgate-Palmolive – Dillon Read; DuPont (E. I. de Nemours – Morgan Stanley; Ford Motor Co., – Goldman Sachs; General Foods – Goldman Sachs; Goodrich (B.F.) – Goldman Sachs; Gulf Oil – First Boston; IT&T – Lazard Freres & Lehman Brothers Kuhn Loeb; Johns Manville – Goldman Sachs; Kennecott Cooper – First Boston; Motorola – Goldman Sachs; Penzoil – Lehman Brothers Kuhn Loeb; Quaker Oats – Goldman Sachs & Lazard Freres; Shell Oil – Morgan Stanley; Standard Oil of Calif. – Blythe Eastman Dillon & Solomon Brothers; Texaco – Morgan Stanley; Time – Salomon Brothers; UAL – Morgan Stanley; United Brands – Goldman Sachs; Weyerhaeuser – Morgan Stanley. (*Institutional Investor*, April 1979, pp. 49-62.)

The ranking of the leading investment firms and the number of their clients in 1979 was: Goldman Sachs (127); Merrill Lynch White Weld (122); Lehman Brothers Kuhn Loeb (85); First Boston (78); Morgan Stanley (70); Salomon Brothers (59); Kidder Peabody (51); Blyth Eastman Dillon (51); Smith Barney, Harris Upham (38); Lazard Freres (36). (Ibid)

Part VI – Andre Meyer: One of the Most Famous Investment Bankers

One of the most important investment bankers in the world was Andre Meyer, the former senior partner of Lazard Freres & Co. in New York, who died in 1979. T. A. Wise describes some of the activities and influence of this financial wizard as follows:

"Andre Meyer [was] a sixty-nine-year-old investment banker who was born in France, left there in 1940 only a step ahead of the German Gestapo, and became a U.S. citizen in 1948. Meyer's official title is senior partner of Lazard Freres & Co. In New York. But he also has a large number of official and unofficial relationships that give him a distinctive role in the power politics of finance. He is, for example, the only U.S. investment banker who is a partner or director of major investment-banking houses in Europe and other parts of the world. Meyer not only serves on the boards of such large U.S. corporations as RCA and Allied Chemical, but is a member of the Fiat and Montecatini Edison boards in Italy and the Sofina board in Belgium.

Meyer's Connections in High Places

"Meyer's connections in high places have won him a string of delicate public assignments. As a youth in the Twenties, he represented French bankers negotiating the Young Plan. In 1963, President Kennedy appointed him to the Fowler Committee, set up to develop ways of promoting foreign investment in the U.S. and foreign financing of U.S. corporations abroad. More recently, President Johnson named him to the Dillon Committee, which played a major role in the creation of the IMF's Special Drawing Rights. Meyer is credited with being one of the first men to urge a two-tier system of pricing gold.

"Meyer's close friends include Robert McNamara, the new president of the World Bank, and Henry Fowler, Secretary of the Treasury. He is a confidant of Eugene Black, former head of the World Bank who is now a financial adviser to the U.S. and the U.N. (Black's son is a Lazard partner.) And his contacts with other internationally known financial figures are old and deep. Jean Monnet, the father of the Common Market, and Jacques Reuff, de Gaulle's key adviser on monetary policy, are old friends. Reuff's father, a doctor, delivered Meyer at birth. Maurice Couve de Murville, France's new Premier, is a friend of thirty years' standing.

An Impressive Network of Influential Acquaintances

"Indeed, Meyer has built such an impressive network of influential acquaintances that Dale Carnegie could have taken lessons from him. He is not only a personal friend and adviser to Jacqueline Kennedy but is also a trustee of Joseph Kennedy's substantial estate. Lyndon Johnson consults him regularly. And he is a joint investor with David Rockefeller in several real-estate ventures.

The Single Most Intriguing Figure in the World

"Meyer's formidable combination of talent, experience, and personal contacts prompts many sophisticated financial people in the U.S. and abroad to concede that he is the single most intriguing and influential figure...operating in the capital markets of the free world. To many people who deal with him he appeared to be a tough, aggressive, and imaginative banker who knows precisely what he wants and is determined to get it. A fellow corporate board member calls him "the de Gaulle of the financial world." Extremely publicity-shy, he insists that all negotiations in which he is involved be kept strictly confidential. A few years ago, when word leaked prematurely that a major oil company was considering buying Avis, which Meyer then controlled, he immediately broke off discussions. 'We don't want to deal with people who cannot control their information,' he snapped. (*Fortune*, August 1968, pp. 102-103.)

Part VII – Mergers and Acquisitions

Meyer's righthand man at Lazard Freres was Felix G. Rohatyn. Rohatyn is one of Wall Street's most respected "merger and acquisition" kings. One way in which a "world system of financial control in private hands" is being built is through mergers and acquisitions. Most mergers and acquisitions are arranged by investment bankers. The end result of these various mergers over the years is the giant multinational corporations. In essence, global companies are created by the elite triangle of power in the world – the international bankers, investment bankers and corporate directors. Each of these individuals sit on each others' board of directors to the degree that it seems like one large world corporation, although legally they are separate global entities. For example, in 1973 Lazard Freres' general partners were directors in thirty-one corporations. The same pattern exists for the other investment banking houses, as well as the giant corporations and banks.

A Web of Interlocking Directorates

A virtual web of interlocking directorates bind the corporations, international banks and investment houses together. It is this web of influence which constitutes the "elite financial and industrial establishment" of the United States. Similar "establishments" exists in London, Paris, Geneva, Brussels, Frankfurt, Tokyo, etc. The elites from these areas are also bound together in a tightly knitted web of interdependence. The combination of elites in New York, Boston, Paris, London, Tokyo, Frankfurt, etc., is what constitutes the world power structure. It is a very real, visible identity. The long-range goal of this elite power structure is a "world system of financial control in private hands."

The World Power Structure

The real world power structure is like concentric circles. The central core probably consists of less than one hundred powerful financial, industrial, and corporate figures. The second circle probably consists of a group of 500-900 elite bankers, industrialists, businessmen, etc. The third circle probably consists of another 5000 elites who uphold and promote the system throughout the world. To this writer, the elite power structure of the world resembles a giant global corporation with a chairman of the board, a board of directors, numerous presidents and vice-presidents, etc. However, such a corporation does not exist, at least not yet. These influential and powerful individuals are the architects of the "new Imperial System."

Giant World Monopolies Are Being Built

If one looks at the world today there exists about five hundred major global companies. These companies through the process of merger and acquisition are slowly swallowing up the businesses and corporations of this world. The process

of building giant world monopolies is being accomplished and orchestrated by the investment banking world. It is called "financial engineering" and entails the arranging of mergers and acquisitions and the selling of financial advice. In fact, the arrangement of mergers and acquisitions is the most profitable aspect of investment banking.

The Concentration of Power in Our Society

On June 20, 1979, John H. Shenefield, Assistant Attorney-General, Anti-trust Division of the United States Department of Justice, forwarded to the President and Congress a report entitled, "Conglomerate Mergers, Small Business, and the Scope of Existing Anti-Merger Statutes." The report stated:

Introduction

"Over the past decade, a broad spectrum of public officials, members of the academic and business communities, and the public at large has expressed increasing concern about the cumulative effect of large conglomerate mergers on the concentration of economic power in our society and about the long-range impact of such mergers on competition and on the ability of small businesses to function effectively.

"The purpose of this report is to evaluate these concerns in the context of the current ability of the antitrust agencies to deal effectively with the problems raised by mergers, particularly conglomerate mergers, among America's largest businesses.

Large Merger Waves

"We believe that this review is a timely one. The United States has experienced several large merger waves within the last century. The first major merger wave, viewed by some as an effort to create monopolies, resulted in the passage of the Sherman Act of 1890 and the Clayton Act of 1914. The next merger wave, which has been characterized as an effort to create oligopolies by merger, led, in part, to the enactment of the Celler-Kefauver Act of 1950, which strengthened Clayton Act Section 7. As the merger waves of the late 1960's and early 1970's developed, it became clear to antitrust experts that the existing antitrust laws which had proved relatively effective against horizontal and vertical mergers were of only limited applicability to conglomerate consolidations.

The First Merger Wave

"While the first conglomerate merger wave caused widespread public debate, no additional antitrust legislation directed at conglomerate mergers was enacted by Congress at that time, partially out of a belief that conglomerate mergers, previously a relatively unstudied phenomenon, might have overall positive benefits

on economic activity. When that merger wave drew to a close, immediate public interest in conglomerate mergers diminished. Subsequently, however, analyses of the effects, both positive and negative, of conglomerates became increasingly available as the data from that period, compiled from financial reports and government statistics, was subjected to scrutiny by researchers.

A New Merger Wave

"With the recent emergence of a new conglomerate merger wave, the stage was therefore set for a renewed public debate concerning the need for additional legislation to deal with merger among the largest business enterprises. The small business community has been an active participant in this dialogue.

"A poll taken among the 570,000 members of the National Federation of Independent Business during early 1979 revealed that 61 percent of those responding believed that mergers by and among the largest firms should not be permitted unless proponents of such an acquisition could demonstrate that it was not anticompetitive or monopolistic. Similarly, a 1978 report of the House Committee on Small Business, *Future of Small Business in America*, concluded that the antitrust enforcement agencies should develop proposals to reverse the trend increasing aggregate concentration through mergers and acquisitions.

"It is to a discussion of conglomerate mergers – their effects and the ability of the antitrust laws to deal with them – that this report now turns.

The Conglomerate Merger Phenomenon

"The Current conglomerate Merger Wave – Its Effect on Economic Concentration"

"During the past few years, the number of reported mergers, especially the number of mergers involving the largest American corporations, has increased sharply. Between 1975 and 1978 the number of 'giant mergers,' those involving the acquisition of companies in transactions valued at \$100 million or more, leaped from 14 to 80, a 500 percent gain. Overall, in that same period, the annual total purchase value for all announced mergers rose nearly 190 percent. Today's merger activity is significantly above historical averages in both absolute and relative terms, and rivals the 1968-1969 merger peaks in intensity.

"The principal type of merger consummated in this wave is conglomerate. In recent years, mergers involving companies engaged in businesses totally unrelated to each other, so-called 'pure conglomerate mergers,' have accounted for between 45 and 55 percent of all manufacturing assets acquired in large mergers; the percentage interest is between 80 and 90 percent of manufacturing assets transferred when the other categories of conglomerate mergers, product and market extension mergers, are included.

A Long Term Trend Toward Increasing Concentrations of Power

"This merger activity is taking place in any economy which is experiencing a long-term trend toward an increasing concentration of economic power. In 1950, when Congress strengthened the Clayton Act, legislators expressed concern that 'industrial giants' were gaining too much economic power, and that this 'rising tide economic concentration' threatened local control of business and other non-economic values. Then, Congress noted that the 316 largest industrial firms had increased their share of the manufacturing sector's working capital from 40 percent in 1929 to 47 percent in 1940. Between 1947 and 1972, however, the largest 200 American industrial firms increased their share of the nation's manufacturing assets from 46 to 61 percent. During the current merger wave, the trend has continued. By 1977 these top 200 firms controlled 62 percent of the industrial assets.

High Levels of Concentration

"Data recently made available by the Internal Revenue Service also reveals that relatively high levels of concentration exist economy-wide and that they have been increasing, or not declining significantly, in several sectors. For example, the percent of total corporate assets from all sectors of the economy attributable to the 50 largest companies grew from 20.8 percent in 1968 to 23.1 percent in 1974, and the share of the largest 500 corporations rose from 45.9 percent to 48.6 percent. In terms of total receipts during those years, the share of the top 50 went from 15.5 percent to 19.2 percent, and of the top 500, from 35.2 percent to 40.6 percent. Excluding financial, insurance, and real estate corporations, the share of the top 50's assets increased from 25.1 percent to 25.7 percent, and that of the top 500, from 53.9 percent to 55.6 percent. For receipts, the numbers were, top 50, 16.6 percent to 20.9 percent; top 500, 36.5 percent to 42.2 percent.

"Mergers have played a significant part, though only a part, in this growth. Studies estimate that as much as 73 percent of the increase in concentration of assets held by the largest 200 manufacturing companies during the 1950's and 1960's was directly attributable to assets acquired in mergers. Approximately 13.6 percent of the assets held by the top 200 industrial companies in 1977 were obtained by mergers. At least one study estimates that but for mergers by the 200 largest industrial companies, the overall concentration of assets held by our country's largest firms would have declined in the 1960's.

"In similar fashion, conglomerate mergers by large firms have served to diminish the number of decision centers in the business community. For example, from 1968 through 1977, corporations with more than \$1 billion in assets acquired 160 independent industrial enterprises having assets over \$10 million by means of conglomerate mergers.

The Cumulative Effects of Large Conglomerate Mergers May Be Substantial

"Although conglomerate mergers among large enterprises may, on average, have relatively few net economic benefits or detriments for the firms involved, the cumulative impact of conglomerate mergers on society may be significant. The next section of this report will detail those effects as they specifically relate to small business; this section will summarize the effect of conglomerate acquisitions on society as a whole.

Concentration of Power into Fewer and Fewer Corporations

"Perhaps the most overt effect of mergers and acquisitions among America's largest businesses is the contribution they make toward the increasing concentration of economic power in relatively fewer and fewer corporations. One of the fundamental principles underlying our society's approach toward economic organization, repeatedly articulated by Congress and the courts in developing antitrust policy, is the encouragement of a diversity of voices and a decentralization of economic power. Large business organizations, however, are seen by some as inherently at odds with these basic precepts of a democratic society: because they employ many individuals, and purchase and produce much of our nation's economic output, large enterprises may have undue influence on the political affairs of the nation.

Large Corporations Are in a Position to Encourage Favors From Public Officials

"With a broad community of interests dependent on their financial well-being, the largest corporations are in a position to encourage a favorable response from public officials. Similarly, because of their ability to marshal both economic resources and the time of employees, large firms may be in a position to have a disproportionate voice in the shaping of the political debate over various issues of public importance. This latter role of the corporation in American society was recently brought home by the Supreme Court's decision in *First National Bank of Boston v. Bellotti*, which upheld the right of business enterprises to spend funds without government restriction to advocate positions on a wide variety of issues.

An Undercutting of Basic American Values

"Thus, to the extent that conglomerate mergers decrease the number of independent decision centers in the business community without enhancing productivity, they contribute to a needless undercutting of basic American values. In addition, conglomerate mergers cumulatively may cause economic and competitive harms as well.

"First, conglomerate mergers may divert corporate financial resources or loan capacity from investment in new productive facilities. Instead of taking the

relatively risky, but societally beneficial, step of creating new capacity for the production of goods and services, firms may take the expedient step of 'growth by acquisition,' a process that simply serves to transfer wealth from the purchasing corporation (and its shareholders) to the shareholders of the target enterprise. Moreover, when banks lend funds to finance a takeover, resources available for internal expansion by businesses, including small business, are diminished. Where this process involves a 'hostile' takeover, additional investable funds may be dissipated in the form of payments to lawyers and public relations agencies as the suitor and target firm battle it out in every forum except that of the market place. Indeed, it is estimated that one recent highly contested acquisition cost upwards of \$15 million in direct outlays. Needless to say, corporate efficiency can only suffer as the attention of senior managers is diverted from the normal process of running a business so they can participate in the battle for control of the target firm.

The Effect of Mergers

"The cumulative effect of conglomerate mergers may do more than merely decrease investment in new productive facilities; it may decrease competition throughout the economy as firms choose to buy a 'presence' in an attractive market by acquisition of an existing firm, rather than through creation of a new competitor. As long as companies continue to have the opportunity to diversify through acquisition, including acquisition of relatively dominant firms, they cannot be faulted for avoiding the more competitive means of diversification, *de novo* entry or purchase of a firm with a relatively small market share.

"Finally, conglomerate mergers facilitate the emergence of 'mutual forbearance' on the part of major firms. As firms increasingly operate in markets common to each other, they can develop a community of interests which discourages aggressive competition. For example, a firm with a competitive advantage in one market may forego exercising that advantage because a competitor in that market is a conglomerate operating also in another market in which the first firm is competitively weak. The firm may fear that to compete in the first market will invite retaliation in the second, imposing costs counterbalancing any expected gains in the first. The likelihood of the emergence of this 'live and let live' philosophy may be enhanced where these overlaps occur in concentrated markets in which the conglomerates involved control leading firms.

The Effects of Conglomerate Mergers on Small Businesses

"This section explores the effects of conglomeration on small business. Acquisition of a firm by a large corporation may have a variety of effects on small business. It can affect small business in the markets in which the acquired firm operates, the acquired firm's relationships to its small business suppliers and customers, and the acquired firm's relationship with the community in which it

functions. Additionally, even if individual mergers do not produce a significant impact, the effect of many mergers, taken together, may be significant.

"At the outset it should be noted that, as a direct consequence of disproportionately large growth by large corporations, the share of productive wealth held by small business has declined. In 1960, small and medium size corporations controlled 50 percent of the nation's manufacturing assets. Notwithstanding a substantial increase in the number of small business firms, by 1976 the relevant share dwindled to 30 percent. This decline is not just the product of natural forces encouraging accelerated growth by large firms. Artificial barriers seemingly restrain small business growth. Thus, in examining the effects of conglomerate mergers upon small business, it is important to note the ways in which conglomerate mergers may exacerbate those problems which small businesses believe hamper their development.

Competitive Effects on Markets in Which the Conglomerate Operates

"The chief threat to small business rivals resulting from the acquisition of a competitor by a large enterprise is that the transaction will 'entrench' the competitor's market position or enable the acquired firm to 'invest' in short-run predatory conduct for the purpose of achieving the benefits of a dominant position thereafter. Moreover, the purchase of a firm by a multiline conglomerate may enhance the firm's opportunity to use business reciprocity, tie-in sales, or predatory pricing tactics to gain unwarranted sales and profits at the expense of smaller rivals. A conglomerate merger which may enlarge a disparity in financial resources between a conglomerate firm and its market rivals may also create a fear that the newly enriched competitor may use its resources to retaliate against any company instituting a price move, and thus, either discourage smaller rivals from aggressively competing or encourage them to obtain a similar resource by seeking out a comparably sized merger partner, further accelerating the loss of small businesses.

The Threat of Anticompetitive Entrenchment

"The threat of anticompetitive entrenchment is especially great when a conglomerate firm acquires a dominant or near-dominant firm in a concentrated industry. In some cases the conglomerate may be able to transfer its economic power to a new line of commerce. It may be able to use earnings derived in other markets to subsidize its operations in the new market, or vice-versa, to enable it to sell its products at a substantial reduction in price and profits to gain an increase in its market share at the expense of firms which are unable to adopt similar pricing strategies because they lack a second income stream to support production at reduced profit levels. This possibility particularly affects the one-market small business.

"Some conglomerate firms have extensively and intensively advertised products which are obtained in a merger. This advertising may increase the sale of the product at the expense of firms, especially small firms, which lack the financial wherewithal to mount such marketing campaigns. While there is not a consensus on this matter, some economists believe that this advertising is anticompetitive in that it creates a barrier to the growth or entry of competitors. If large scale advertising is, as other economists suggest, a proper form of competition in distribution, the adverse effects on small business that may result cannot theoretically be considered 'anticompetitive.' Nevertheless, it would appear that, to the extent that the only 'advantage' derived from a conglomerate acquisition of a leading firm is an increased advertising budget, the transaction may injure small businesses without significant benefits to the public.

Effects on Customers and Suppliers of a Conglomerate

"While an alteration in an acquired corporation's operational practices does not always ensue following its acquisition by a conglomerate, changes in marketing strategies, pricing practices and credit extension policies have sometimes followed a merger. These operational modifications may disrupt long established business relationships. Small business firms are particularly affected by such changes, since many of these firms are engaged in the distributional process and must purchase products from these acquired manufacturers for resale at the wholesale or retail level.

"Of particular concern to small business may be the conglomerate establishment of a centralized purchasing system. The conglomerate may attempt to consolidate its buying power by having all supplies purchased at a central location. It may choose to eliminate existing arrangements with local small business in favor of acquiring goods from a larger company. The consolidation of purchasing power may or may not represent a savings to the firm, but it often creates severe losses for the affected small businesses.

"Small firms are especially vulnerable to the adverse consequences of changes in existing business practices, since even transitory costs generated by such changes can cause severe cash flow difficulties and disproportionately affect the small business firm's often small profit.

Effects on the Conglomerate's Community

"A conglomerate merger may decrease the commitment of an acquired firm to the financial and civic health of its local community. When corporate decision-making power is transferred and consolidated in distant cities, local interests and needs may become increasingly less relevant to corporate management. Local service industries may, in particular, find their business diminished when the corporation chooses to rely on businesses in the cities where its headquarters are located to fulfill the financial, legal, accounting and other needs of the business.

"Additionally, because a large corporation often determines the fate of a particular plant by reference to broad corporate goals, it may close an acquired plant for not achieving these goals, though the business remains viable. Whereas a locally oriented enterprise might make a special effort to seek improved methods of operation to allow it to remain in business and thus preserve the jobs of local managers and employees, the large corporation may believe that its management talent and available funds might more readily be invested elsewhere in its conglomerate structure and simply shut the business down.

"A plant closure directly affects those small businesses that dealt with the plant directly. Additionally, a plant closure may affect the economic vitality of a community, which may affect small businesses through a 'ripple' effect.

Effect of Government Regulation on Small Business

"Small business persons believe that much of the current governmental regulation handicaps their firms' performance. The cost of providing information required by regulators is relatively fixed: regardless of the size of a firm queried, a substantially equivalent effort may be required to answer most government questionnaires. This means the proportionate cost of conforming to regulatory informational demands is inversely related to the size of the responding firm. Moreover, small firms are often unable to hire regulatory specialists to monitor, communicate with, or challenge regulatory authorities, and thus must suffer the consequences of an increased cost for last-second compliance with regulations. Larger enterprises thus gain a substantial, if artificial, competitive advantage where regulation exists.

The Growth of Government Regulations

"Regulatory involvement is growing. The number of rules promulgated by agencies, as recorded in the Federal Register, has increased substantially. The conglomerate merger wave may contribute to this growth. While many government regulatory programs represent much-needed efforts to protect the public health and safety, many citizens also appear to believe, however reluctantly, that 'big government' is a necessary countervailing power to 'big business.' Consequently, calls for government regulation over and above that which might be required is a more decentralized, more competitive economy, may receive the support of legislators. To the extent that conglomerate mergers contribute to this perceived need for countervailing governmental intervention, the continued occurrence of such mergers will likely lead to further regulation. Ironically, of course, such regulation may impose relatively greater costs on small business, creating further difficulties for their efforts to prosper.

The Prospect for Control of Conglomerate Mergers Under Existing Antitrust Laws

"The principal legal constraint on mergers, Section 7 of the Clayton Act, has, for a number of reasons, proved an unsatisfactory tool for controlling conglomerate mergers. Its ineffectiveness is best illustrated by the fact that since 1973, in a period of heightened conglomerate merger activity, there has not been a successfully litigated conglomerate merger challenge; both the Antitrust Division and the Federal Trade Commission have lost approximately twelve merger cases based on conglomerate theories from 1973 through 1978.

"The chief defect of present law is its narrow focus on anticompetitive effects in particular markets. Judicial decisions in the early 1960's made clear that the statute can effectively scrutinize horizontal or vertical mergers because those mergers have a direct potential for lessening competition in a given line of commerce. However, conglomerate mergers, for the most part, have escaped enforcement efforts because they often do not pose immediate competitive threats to a given market. Government attempts to expand the scope of the act by challenging mergers because of their effect on aggregate or *economy-wide* concentration have been rejected.

"Although the courts have accepted certain of the competitive theories advanced by antitrust agencies to attack particular conglomerate mergers, the requisite proof is very difficult.

"For instance in 'actual' potential competition cases the plaintiff may be required to establish that the potential entrant *subjectively* intended alternative entry into the market. Thus, it may not be sufficient to establish the objective fact that alternative means of entry were feasible. Similarly, in cases where it is alleged the acquiring firm was a procompetitive force because it was perceived as a potential entrant, the courts may require evidence that existing competitors actually modified their conduct because of its presence on the fringe of the market. Further, the requirement that a potential entrant be one of only a few such entrants limits the effectiveness of the theory with respect to purely conglomerate mergers.

"Courts have also recognized that a conglomerate merger may entrench a leading firm. The courts, however, have required fairly specific proof of such an entrenching effect before finding a violation of Section 7. Courts have refused to apply the theory where the acquired firm was not dominant in its market or where the argued entrenching effect was not based upon a close complementary relationship between the products sold by the two firms.

"An increased opportunity for anticompetitive reciprocity has been recognized as a possible harmful effect of certain conglomerate mergers. As with the other conglomerate merger theories, the focus is on specific anticompetitive effects in particular economic markets. Thus, the mere possibility of some increased opportunity for reciprocity has not been generally accepted as a basis for prohibiting the typical conglomerate merger.

"Finally, even when particular anticompetitive effects can be demonstrated, the parties to the merger may simply decide to divest a portion of their assets to remedy the specific anticompetitive problem, often leaving them free to combine the bulk of their assets.

Possible Legislative Remedies

"On the basis of the evidence developed over the past decade, it is fair to conclude that mergers among this nation's largest business enterprises, particularly those that are conglomerate in nature, on an average contribute little to the enhancement of efficiency, productivity, and competition. At the same time, these transactions, by their very nature, serve to enhance the aggregate concentration of economic power in the hands of fewer and fewer large enterprises while removing from the business community independent voices for innovation, competition, and political expression.

"Most importantly, merger and acquisition activity by the largest businesses carries with it a significant potential for harm to competition in general and to small business in particular. Acquisitions of dominant firms by firms with substantial resources may serve to entrench those firms and to finance predatory behavior that might not otherwise have been possible. Internalization of procurement and supply functions within a conglomerate may eliminate the acquired firm as either a supplier or customer of small businesses, as headquarters officials in a distant city find it administratively convenient to deal directly with a fewer number of larger enterprises. In some instances, where the acquired firm is a major factor in the local economy, the result may be the long-run impairment of the community's business environment." (U. S. Department of Justice, Antitrust Division, Washington, D. C., pp. 1-18.)

Part VIII – Conclusion

From the above report by the Department of Justice, the reader can begin to glimpse the tremendous movement which is currently underway to create giant global monopolies. It should be pointed out that these large corporations are controlled by a few large family empires or individuals. A "world system of financial control in private hands" is not an illusion but is fast becoming a reality. The power of the elite financial oligarchy is growing daily as mergers and acquisitions continue throughout the world. Tremendous power is being concentrated into a few hands. The triangular interlock of international bankers, corporate directors, and investment bankers is successfully steering the business of the world into a system that resembles a giant world corporation. In the near future, one hundred global companies may dominate every major field – banking, business, transportation, communications, industry, chemicals, computers, utilities, etc. These one hundred global corporations and the remaining four hundred large world corporations are so intertwined through the process of interlocking

directorates as to form what resembles a single world corporation with a defined set of ideologies.

The world of the future will be 'managed' by global companies and global institutions. The nation-state will become an 'administrative' unit of the global system of governance operated by the elite financial oligarchy. In the world of the future as well as the world of the past, the investment banker will continue to play a dominant role in the world's elite power structure as financial engineer and manager.

5. The Impact of Wall Street on the World

Part I – Introduction

Since the early 1900s, certain influential and powerful groups of international bankers, investment bankers, and corporate directors have developed a close alliance with leading socialists and communists throughout the world. One prominent scholar who has presented evidence of the East-West interlock or alliance is Antony Sutton, former Research Fellow at the Hoover Institution on War and Peace at Stanford University. While at the Hoover Institution, Sutton published his monumental three-volume series entitled, "Western Technology and Soviet Economic Development 1917-1965." After completing his lengthy treatise on Western assistance to the Soviet Union, Sutton produced four books which subsequently surprised the academic world: *National Suicide: Military Aid to the Soviet Union* (1973); *Wall Street and the Bolshevik Revolution* (1974); *Wall Street and FDR* (1975); and *Wall Street and the Rise of Hitler* (1976).

A Well Documented Study of the Elite Power Structure in America

In a well-documented and scholarly fashion Sutton introduced the reader to fact after fact that certain groups of Wall Street bankers and businessmen had been supporting socialism and communism around the world. Antony Sutton's premise is that international bankers, investment bankers, and corporate directors operate upon monopolistic practices and are determined to use governments to further their control of the earth – its people and resources. A socialist government is based on central economic and political control. It is easier to control a small group of administrators than a nation of sovereign people. The nations which have embraced socialism or communism have been reduced to mere administrative units which operate under the direction and control of the world's power structure – the international bankers, investment bankers, and corporate directors. Socialism eliminates competition in the market arena and produces greater monopoly control. In other words, socialism and communism (which operate from below), coupled with monopoly and finance capitalism (which operate from above) create a "world system of financial control in private hands able to dominate the political system of

each country and the economy of the world as a whole." (Carroll Quigley, *Tragedy and Hope*, The Macmillan Company, NY, 1966, p.324.)

The Earth is Falling Under the Control of Global Corporations

The earth is gradually falling under the control of large global companies and international institutions. The governmental machinery of the nation-states throughout the world is dominated and controlled by the world's elite power structure. These elite groups finance socialism and communism because it reduces people to a situation where they are totally dependent upon the state. The elite power structure controls the government by placing its special emissaries in strategic places within the government, such as Secretary of State, Secretary of Treasury, Secretary of the Commerce, the CIA and National Security Council, the Securities and Exchange Commission, etc. These individuals then introduce and maintain governmental policies which keep the people in bondage and the elite in positions of power.

Professor Sutton is one of the few scholars to see through the maze of deception and propaganda which has been disseminated throughout the world by the elites in the United States, Europe, Asia and elsewhere. In the remainder of this section, we will examine a number of comments made by Professor Sutton which illustrate that a capitalist-socialist-communist alliance is operating from Wall Street.

Part II – Wall Street and the Bolshevik Revolution

Inasmuch as we have already discussed Sutton's research on military and industrial aid to the Soviet Union in the section on multinational corporations, we will concentrate on his three books on Wall Street in this chapter. In this section, we will look at *Wall Street and the Bolshevik Revolution*, published in 1974. In chapter one, Professor Sutton briefly outlines the monopolistic goals of the inner sanctums of Wall Street. He then explains why so many academics have been duped into believing that capitalists and communists are enemies. He stated:

"Consequently, one barrier to mature understanding of recent history is the notion that all capitalists are the bitter and unswerving enemies of all Marxists and socialists. This erroneous idea originated with Karl Marx and was undoubtedly useful to his purposes. In fact, alliance between international political capitalists and international revolutionary socialists is to their mutual benefit. This alliance has gone unobserved largely because historians – with a few notable exceptions – have an unconscious Marxian bias and are thus locked into the impossibility of any such alliance existing. The open-minded reader should bear two clues in mind: monopoly capitalists are the bitter enemies of laissez-faire entrepreneurs; and, given the weaknesses of socialist central planning, the totalitarian socialist state is a perfect captive market for monopoly capitalists, if an alliance can be made with the socialist power-brokers. Suppose – and it is only hypothesis at this point – that American monopoly capitalists were able to reduce a planned socialist Russia to

the status of a captive technical colony? Would not this be the logical twentieth-century internationalist extension of the Morgan monopolies and the Rockefeller petroleum trust of the late nineteenth century? (Antony C. Sutton, *Wall Street and the Bolshevik Revolution*, New Rochelle, NY: Arlington House, 1974, p. 17.)

International Financiers Support Communism

It is obvious that the world is being propelled or guided into a global system of central economic and political planning under international institutions such as the IMF, IBRD, OECD, BIS, WTO, economic summitry, etc. This could not occur if the people of the world had not been pre-conditioned into accepting the communist and socialist philosophy. Professor Sutton in *Wall Street and the Bolshevik Revolution* provides sufficient evidence to conclude that without the assistance of the certain international financiers and businessmen, communism would have never flourished in the Soviet Union and, later, in China. In fact, had these totalitarian powers been curtailed by freedom fighters, it is possible that today Russia, China, East Europe and parts of Asia would be free nations with prosperity equal to that of the United States.

International Financiers are Responsible for the Survival of Communism

The harsh facts indicate that elites in the United States and Europe are responsible not only for the birth but the survival of communism since the Bolshevik Revolution. Professor Sutton provided the reader with the following synopsis of the material he presented in his book:

"Evidence already published by George Katkov, Stefan Possony, and Michael Futrell has established that the return to Russia of Lenin and his party of exiled Bolsheviks, followed a few weeks later by a party of Mensheviks, was financed and organized by the German government. The necessary funds were transferred in part through the Nya Banken in Stockholm, owned by Olof Aschberg, and the dual German objectives were: (1) removal of Russia from the war, and (b) control of the postwar Russia market.

Working Relationship between Morgan Guaranty Trust Company and Bolsheviks

"We have now gone beyond this evidence to establish a continuing working relationship between Bolshevik banker Olof Aschberg and the Morgan-controlled Guaranty Trust Company in New York before, during, and after the Russian Revolution. In tsarist times Aschberg was the Morgan agent in Russia and negotiator for Russian loans in the United States; during 1917 Aschberg was financial intermediary for the revolutionaries; and after the revolution Aschberg became head of Ruskombank, the first Soviet international bank, while Max May, a vice president of the Morgan-controlled Guaranty Trust, became director and chief of the Ruskombank foreign department. We have presented documentary

evidence of a continuing working relationship between the Guaranty Trust Company and the Bolsheviks.

Transfer of Funds from Wall Street to Revolutionaries

"Moreover, there is evidence of transfers of funds from Wall Street bankers to international revolutionary activities. For example, there is the statement (substantiated by a cablegram) by William Boyce Thompson – a director of the Federal Reserve Bank of New York, a large stockholder in the Rockefeller-controlled Chase Bank, and a financial associate of the Guggenheims and the Morgan – that he (Thompson) contributed \$1 million to the Bolshevik Revolution for propaganda purposes. Another example is John Reed, the American member of the Third International executive committee who was financed and supported by Eugene Boissevain, a private New York banker, and who was employed by Harry Payne Whitney's *Metropolitan* magazine. Whitney was at that time a director of Guaranty Trust. We also established that Ludwig Martens, the first Soviet 'ambassador' to the United States, was (according to British Intelligence chief Sir Basil Thompson) backed by funds from Guaranty Trust Company. In tracing Trotsky's funding in the U.S. we arrived at German courses, yet to be identified, in New York. And though we do not know the precise German sources of Trotsky's funds, we *do* know that Von Pavenstedt, the chief German espionage paymaster in the U.S., was also senior partner of Amsinck & Co. Amsinck was owned by the ever-present American International Corporation – also controlled by the J. P. Morgan firm.

"Further, Wall Street firms including Guaranty Trust were involved with Carranza's and Villa's wartime revolutionary activities in Mexico. We also identified documentary evidence concerning a Wall Street syndicate's financing of the 1912 Sun Yat-sen revolution in China, a revolution that is today hailed by the Chinese Communists as the precursor of Mao's revolution in China. Charles B. Hill, New York attorney negotiating with Sun Yat-sen in behalf of this syndicate, was a director of three Westinghouse subsidiaries, and we have found that Charles R. Crane of Westinghouse in Russia was involved in the Russian Revolution.

Significant Evidence of Wall Street's Involvement in Bolshevik Revolution

"Quite apart from finance, we identified other, and possibly more significant, evidence of Wall Street involvement in the Bolshevik cause. The American Red Cross Mission to Russia was a private venture of William B. Thompson, who publicly proffered partisan support to the Bolsheviks. British War Cabinet papers now available record that British policy was diverted towards the Lenin-Trotsky regime by the personal intervention of Thompson with Lloyd George in December 1917. We have reproduced statements by director Thompson and deputy chairman William Lawrence Saunders, both of the Federal Reserve Bank of New York, strongly favoring the Bolsheviks. John Reed not only was financed from Wall

Street, but had consistent support for his activities, even to the extent of intervention with the State Department from William Franklin Sands, executive secretary of American International Corporation. In the sedition case of Robert Minor there are strong indications and some circumstantial evidence that Colonel Edward House intervened to have Minor released. The significance of the Minor case is that William B. Thompson's program for Bolshevik revolution in Germany was the very program Minor was implementing when arrested in Germany.

International Agents

"Some international agents, for example Alexander Gumberg, worked for Wall Street and the Bolsheviks. In 1917 Gumberg was the representative of a U.S. firm in Petrograd, worked for Thompson's American Red Cross Mission, became chief Bolshevik agent in Scandinavia until he was deported from Norway, then became confidential assistant to Reeve Schley of Chase Bank in New York and later to Floyd Odlum of Atlas Corporation.

"This activity in behalf of the Bolsheviks originated in large part from a single address: 120 Broadway, New York City. The evidence for this observation is outlined but no conclusive reason is given for the unusual concentration of activity at a single address, except to state that it appears to be the foreign counterpart of Carroll Quigley's claim that J. P. Morgan infiltrated the domestic left. Morgan also infiltrated the international left.

The American International Corporation

"The Federal Reserve Bank of New York was at 120 Broadway. The vehicle for this pro-Bolshevik activity was American International Corporation – at 120 Broadway. AIC views on the Bolshevik regime was requested by Secretary of State Robert Lansing only a few weeks after the revolution began, and Sands, executive secretary of AIC, could barely restrain his enthusiasm for the Bolshevik cause. Ludwig Martens, the Soviet's first ambassador, had been vice president of Weinberg & Posner, which was also located at 120 Broadway. Guaranty Trust Company was next door at 140 Broadway but Guaranty Securities Co. was at 120 Broadway. In 1917 Hunt, Hill & L. Betts was at 120 Broadway, and Charles B. Hill of this firm was the negotiator in the Sun Yat-sen dealings. John MacGregor Grant co., which was financed by Olof Aschberg in Sweden and Guaranty Trust in the United States, and which was on the Military Intelligence black list, was at 120 Broadway. The Guggenheims and the executive heart of General Electric (also interested in American International) were at 120 Broadway. We find it therefore hardly surprising that the Bankers club was also at 120 Broadway, on the top floor (the thirty-fourth).

American-Russian Syndicate Formed in 1918

"It is significant that support for the Bolsheviks did not cease with consolidation of the revolution; therefore, this support cannot be wholly explained in terms of the war with Germany. The American-Russian syndicate formed in 1918 to obtain concessions in Russia was backed by the White, Guggenheim, and Sinclair interests. Directors of companies controlled by these three financiers included Thomas W. Lamont (Guaranty Trust), William Boyce Thompson (Federal Reserve Bank), and John Reed's employer Harry Payne Whitney (Guaranty Trust). This strongly suggests that the syndicate was formed to cash in on earlier support for the Bolshevik cause in the revolutionary period. And then we found that Guaranty Trust financially backed the Soviet Bureau in New York in 1919.

Soviets Form Their First International Bank

"The first really concrete signal that previous political and financial support was paying off came in 1923 when the Soviets formed their first international bank, Ruskombank. Morgan associate Olof Aschberg became nominal head of this Soviet bank; Max May, a vice president of Guaranty Trust, became a director of Ruskombank, and the Ruskombank promptly appointed Guaranty Trust Company its U.S. agent." (Antony C. Sutton, *Wall Street and the Bolshevik Revolution*, pp. 169-172.)

Alliance Between Morgan Interests and Bolsheviks

The above synopsis of Sutton's work detailed an extensive and close alliance between Morgan interests and the revolutionaries in the Soviet Union. It also demonstrates that certain individuals in Europe were party to the rise of communism in the Soviet Union. We are not talking about a small group of over-zealous revolutionaries. We are talking about the involvement of the most powerful bankers in America – those connected with J. P. Morgan's empire. At this time, the Morgan group was the undisputed ruler of Wall Street. Professor Sutton next outlines his views on why the capitalist-communist alliance was created:

"What motive explains this coalition of capitalists and Bolsheviks: Russia was then – and is today – the largest untapped market in the world. Moreover, Russia, then and now, constituted the greatest potential competitive threat to American industrial and financial supremacy. (A glance at a world map is sufficient to spotlight the geographical difference between the vast land mass of Russia and the smaller United States.) Wall Street must have cold shivers when it visualizes Russia as a second super American industrial giant.

Wall Street Financiers Enlarge Their Monopolistic Ambitions

"But why allow Russia to become a competitor and a challenge to U.S. supremacy? In the late nineteenth century, Morgan, Rockefeller, and Guggenheim

had demonstrated their monopolistic proclivities. In *Railroads and Regulation 1877-1916* Gabriel Kolko has demonstrated how the railroad owners, not the farmers, wanted state control of railroads, in order to preserve their monopoly and abolish competition. So the simplest explanation of our evidence is that a syndicate of Wall Street financiers enlarged their monopoly ambitions and broadened horizons on a global scale. *The gigantic Russian market was to be converted into a captive market and a technical colony to be exploited by a few high-powered American financiers and the corporations under their control.* What the Interstate Commerce commission and the Federal Trade Commission under the thumb of American industry could achieve for that industry at home, a planned socialist government could achieve for it abroad – given suitable support and inducements from Wall Street and Washington, D.C.

The Bolshevik Revolution Was an Alliance of Statists

"Finally, lest this explanation seem too radical, remember that it was Trotsky who appointed tsarist generals to consolidate the Red Army; that it was Trotsky who appealed for American officers to control revolutionary Russia and intervene in behalf of the Soviets; that it was Trotsky who squashed first the libertarian element in the Russian Revolution and then the workers and peasants; and that recorded history *totally* ignores the 700,000-man Green Army composed of ex-Bolsheviks, angered at betrayal of the revolution, who fought the Whites *and* the Reds. In other words, we are suggesting that the Bolshevik Revolution was an alliance of statists: statist revolutionaries and statist financiers aligned against the genuine revolutionary libertarian elements in Russia.

The Real Motivation of the Bankers on Wall Street

"The question now in the readers' minds must be, were these bankers also secret Bolsheviks? No, of course not. The financiers were without ideology. It would be a gross misinterpretation to assume that assistance for the Bolsheviks was ideologically motivated, in any narrow sense. The financiers were *power*-motivated and therefore assisted *any* political vehicle that would give them an entree to power: Trotsky, Lenin, the tsar, Kolchak, Denikin – all received aid, more or less. All, that is, but those who wanted a truly free individualist society.

American Business Leaders Support the Cause of Fascism

"Neither was aid restricted to statist Bolsheviks and statist counter-Bolsheviks. John P. Diggins, in *Mussolini and Fascism: The View from America*, has noted in regard to Thomas Lamont of Guaranty Trust that:

"Of all American business leaders, the one who most vigorously patronized the cause of Fascism was Thomas W. Lamont. Head of the powerful J. P. Morgan banking network, Lamont served as something of a business consultant for the government of Fascist Italy.

"Lamont secured a \$100 million loan for Mussolini in 1926 at a particularly crucial time for the Italian dictator. We might remember too that the director of Guaranty Trust was the father of Corliss Lamont, a domestic Communist. This evenhanded approach to the twin totalitarian systems communism and fascism, was not confined to the Lamont family. For example, Otto Kahn, director of American International Corporation and the Kuhn, Loeb & Co., felt sure that 'American capital invested in Italy will find safety, encouragement, opportunity and reward.' This is the same Otto Kahn who lectured the socialist League of Industrial Democracy in 1924 that *its* objectives were *his* objectives. They differed only – according to Otto Kahn – over the means of achieving these objectives.

Rockefeller's Public Relations Man is Responsible for Selling the Soviet Regime to the American People

"Ivy Lee, Rockefeller's public relations man, made similar pronouncements, and was responsible for selling the Soviet regime to the gullible American public in the late 1920s. We also have observed that Basil Miles, in charge of the Russian desk at the State Department and a former associate of William Franklin Sands, was decidedly helpful to the businessmen promoting Bolshevik causes; but in 1923 the same Miles authored a profascist article, 'Italy's Black Shirts and Business. 'Success of the Fascists is an expression of Italy's youth,' wrote Miles while glorifying the fascist movement and applauding its esteem for American business." (Antony C. Sutton, *Wall Street and the Bolshevik Revolution*, pp. 172-174.)

A Plan to Perpetuate the Power Base of Financiers

Professor Sutton next outlines a plan financed by Andrew Carnegie which guaranteed that the international financiers and industrialists would continue in power:

"The Marburg Plan, financed by Andrew Carnegie's ample heritage, was produced in the early years of the twentieth century. It suggests premeditation for this kind of superficial schizophrenia, which in fact masks an integrated program of power acquisition: 'What then if Carnegie and his unlimited wealth, the international financiers and the Socialists could be organized in a movement to compel the formation of a league to enforce peace.'

Socialism on a Global Basis

"The governments of the world, according to the Marburg Plan, were to be socialized while the ultimate power would remain in the hands of the international financiers 'to control its councils and enforce peace [and so] provide a specific for all the political ills of mankind."

"This idea was knit with other elements with similar objectives. Lord Milner in England provides the transatlantic example of banking interests recognizing the

virtues and possibilities of Marxism. Milner was a banker, influential in British wartime policy, and pro-Marxist. In New York the socialist "X" club was founded in 1903. It counted among its members not only the Communist Lincoln Stefens, the socialist William English Walling, and the Communist banker Morris Hillquit, but also John Dewey, James T. Shotwell, Charles Edward Russell, and Rufus Weeks (vice president of New York Life Insurance Company). The annual meeting of the Economic Club in the Astor Hotel, New York, witnessed socialist speakers. In 1908, when A. Barton Hepburn, president of Chase National Bank, was president of the Economic Club, the main speaker was the aforementioned Morris Hillquit, who 'had abundant opportunity to preach socialism to a gathering which represented wealth and financial interests.'

Growth of the Modern Internationalist Movement

"From these unlikely seeds grew the modern internationalist movement, which included not only the financiers Carnegie, Paul Warburg, Otto Kahn, Bernard Baruch, and Herbert Hoover, but also the Carnegie Foundation and its progeny *International Conciliation*. The trustees of Carnegie were, as we have seen, prominent on the board of American International Corporation. In 1910 Carnegie donated \$10 million to found the Carnegie Endowment for International Peace, and among those on the board of trustees was Elihu Root (Root Mission to Russia, 1917), Cleveland H. Dodge (a financial backer of President Wilson), George W. Perkins (Morgan partner), G. J. Balch (AIC and Amsinck), R. F. Herrick (AIC), H. W. Pritchett (AIC), and other Wall Street luminaries. Woodrow Wilson came under the powerful influence of – and indeed was financially indebted to – this group of internationalists. As Jennings C. Wise has written, 'Historians must never forget that Woodrow Wilson...made it possible for Leon Trotsky to enter Russia with an American passport.'

"But Leon Trotsky also declared himself an internationalist. We have remarked with some interest his high-level internationalist connections, or at least friends, in Canada. Trotsky then was not pro-Russian, or pro-Allied, or pro-German, as many have tried to make him out to be. Trotsky was *for* world revolution, *for* world dictatorship; he was, in one word, an internationalist. Bolshevists and bankers have ten this significant common ground – internationalism. Revolution and international finance are not at all inconsistent if the result of revolution is to establish more centralized authority. International finance prefers to deal with central governments. The last thing the banking community wants is laissez-faire economy and decentralized power because these would disperse power.

The Goal of a Monopoly – a Captive World Market

"This, therefore, is an explanation that fits the evidence. This handful of bankers and promoters was not Bolshevik, or Communist, or socialist, or Democrat, or even American. Above all else these men wanted markets, preferably captive

international markets – and wanted markets that could be exploited monopolistically without fear of competition from Russians, Germans, or anyone else – including American businessmen outside the charmed circle. This closed group was apolitical and amoral. In 1917, it had a single-minded objective – a captive market in Russia, all presented under, and intellectually protected by, the shelter of a league to enforce the peace.

American Firms Build the Soviet Union

"Wall Street did indeed achieve its goal. American firms controlled by this syndicate were later to go on and build the Soviet Union, and today are well on their way to bringing the Soviet military-industrial complex into the age of the computer.

A Plea for Humanism and Collectivism

"Today the objective is still alive and well. John D. Rockefeller expounds it in his book *The Second American Revolution* – which sports a five-pointed star on the title page. The book contains a naked plea for humanism, that is, a plea that our first priority is to work for others. In other words, a plea for collectivism. Humanism is collectivism. It is notable that the Rockefellers, who have promoted this humanistic idea for a century, have not turned their OWN property over to others. Presumably it is implicit in their recommendation that *we* all work *for* the Rockefellers. Rockefeller's book promotes collectivism under the guises of 'cautious conservatism' and 'the public good.' It is in effect a plea for the continuation of the earlier Morgan-Rockefeller support of collectivist enterprises and mass subversion of individual rights.

The Alliance Between International Finance and International Revolution

"In brief, the public good has been, and is today, used as a device and an excuse for self-aggrandizement by an elitist circle that pleads for world peace and human decency. But so long as the reader looks at world history in terms of an inexorable Marxian conflict between capitalism and communism, the objectives of such an alliance between international finance and international revolution remain elusive. So will the ludicrousness of promotion of the public good by plunderers. If these alliances still elude the reader, then he should ponder the obvious fact that these same international interests and promoters are always willing to determine what *other* people should do, but are signally unwilling to be first in line to give up their own wealth and power. Their mouths are open, their pockets are closed.

The Monopolist Seeks to Control Congress and Let Society Work for the Monopolist

"This technique, used by the monopolists to gouge society, was set forth in the early twentieth century by Frederick C. Howe in *The Confessions of a Monopolist*.

First, says Howe, politics is a necessary part of business. To control industries it is necessary to control Congress and the regulators and thus make society go to work for you the monopolist. So, according to Howe, the two principles of a successful monopolist are, 'First, let Society work for you; and second, make a business of politics.' These, wrote Howe, are the basic 'rules of big business.'

Evidence of the Monopolist's Plan

"Is there any evidence that this magnificently sweeping objective was also known to Congress and the academic world? Certainly the possibility was known and known publicly. For example, witness the testimony of Albert Rhys Williams, an astute commentator on the revolution, before the Senate Overman Committee:

"...it is probably true that under the Soviet government industrial life will perhaps be much slower in development than under the usual capitalistic system. But why should a great industrial country like America desire the creation and consequent competition of another great industrial rival? Are not the interests of America in this regard in line with the slow tempo of development which Soviet Russia projects for herself?

"SENATOR WOLCOTT: Then your argument is that it would be to the interest of America to have Russia repressed?

"MR. WILLIAMS: Not repressed....

"SENATOR WOLCOTT: You say. Why should America desire Russia to become an industrial competitor with her?

"MR. WILLIAMS: This is speaking from a capitalistic standpoint. The whole interest of America is not, I think, to have another great industrial rival, like Germany, England, France, and Italy, thrown on the market in competition. I think another government over there besides the Soviet government would perhaps increase the tempo or rate of development of Russia, and we would have another rival. Of course, this is arguing from a capitalistic standpoint.

"SENATOR WOLCOTT: So you are presenting an argument here which you think might appeal to the American people, your point being this, that if we recognize the Soviet government of Russia as it is constituted we will be recognizing a government that can not compete with us in industry for a great many years?

"MR. WILLIAMS: That is a fact.

"SENATOR WOLCOTT: That is an argument that under the Soviet government Russia is in no position, for a great many years at least, to approach America industrially?

"Mr. WILLIAMS: Absolutely.

A Clue to the Revisionist Interpretation of Russian History

"And in that forthright statement by Albert Rhys Williams is the basic clue to the revisionist interpretation of Russian history over the past half century.

"Wall Street, or rather the Morgan-Rockefeller complex represented at 120 Broadway and 14 Wall Street, had something very close to Williams' argument in mind. Wall Street went to bat in Washington for the Bolsheviks. It succeeded. The Soviet totalitarian regime survived. In the 1930s foreign firms, mostly of the Morgan-Rockefeller group, built the five-year plans. They have continued to build Russia, economically and militarily. On the other hand, Wall Street presumably did not foresee the Korean War and the Vietnam War – in which 100,000 Americans and countless allies lost their lives to Soviet armaments built with this same imported U.S. technology. What seemed a farsighted, and undoubtedly profitable, policy for a Wall Street syndicate, became a nightmare for millions outside the elitist power circle and the ruling class." (Antony C. Sutton, *Wall Street and the Bolshevik Revolution*, pp. 174-179.)

Financing the Enemy

The above summary by Professor Sutton adequately demonstrates the power and influence which has been accumulated in the hands of certain international financiers and businessmen. In addition to creating a captive market, it should be asked if the Soviet military-industrial complex was built by elite financial groups to serve as a motivator for integration of the Western world? Was an "enemy" deliberately created to scare and force the Western world to unite or converge? In the face of a giant "enemy" in Moscow and Peking, the Western world has united according to the long-range plans of the elite financial groups in the world. The Western world, its politicians and scholars have played into the hands of the international financiers. It was they who created the communist menace. It was they who have sustained it financially. The Soviet Union and China and all socialist economies would have collapsed long ago without continued injections of taxpayer's money – predominately from the United States. Socialist economics are built on false principles and incapable of working efficiently, to say nothing of the loss of freedom inherent in socialist ideology.

The bankers and industrialists who make up the elite power structure in the world are desirous to control the earth – its people and resources. They, therefore, constructed a philosophy or ideology which would allow them to gain their prize – control of the earth. The entire world, including the United States, has adopted the principles of socialism to one degree or another. The elite power structure or financial groups now control the world economy and are strengthening international bodies to govern it more adequately.

Part III – Wall Street and FDR

In the 1930s the New Deal almost destroyed the free enterprise system in America, however, the corporate socialists operating the giant multinational corporations out of Wall Street remained almost untouched. The giant corporations prospered by New Deal policies while the small businesses of America were strangled by regulatory agencies and bureaucratic orders.

The Origin of Corporate Socialism

In Antony Sutton's second treatise on Wall Street he demonstrates that President Franklin D. Roosevelt was not against business per se, he just shared John D. Rockefeller's dislike of free enterprise and competition. Sutton documents that FDR was an elitist who guided public policy to benefit the select few who run Wall Street and control the United States economy. Sutton calls those businessmen who make society or the public taxpayer work for them corporate socialists. He outlined the origins of corporate socialism as follows:

"Old John D. Rockefeller and his 19th century fellow-capitalists were convinced of one absolute truth: that no great monetary wealth could be accumulated under the impartial rules of a competitive laissez-faire society. The only sure road to the acquisition of massive wealth was monopoly: drive out your competitors, reduce competition, eliminate laissez-faire, and above all get state protection for your industry through compliant politicians and government regulation. This last avenue yields a legal monopoly, and a legal monopoly always leads to wealth.

The Robber Baron Scheme is the Socialist Plan

"The robber baron schema is also, under different labels, the socialist plan. The difference between a corporate state monopoly and a socialist state monopoly is essentially only the identity of the group controlling the power structure. The essence of socialism is monopoly control by the state using hired planners and academic sponges. On the other hands, Rockefeller, Morgan, and their corporate friends aimed to acquire and control *their* monopoly and to maximize its profits through influence in the state political apparatus; this, while it still needs hired planners and academic sponges, is a discreet and far more subtle process than outright state ownership under socialism. Success for the Rockefeller gambit has depended particularly upon focusing public attention upon largely irrelevant and superficial historical creations, such as the myth of a struggle between capitalists and communists, and careful cultivation of political forces by big business. We call this phenomenon of corporate legal monopoly – market control acquired by using political influence – by the name of corporate socialism.

Confessions of a Monopolist

"The most lucid and frank description of corporate socialism and its mores and objectives is to be found in a 1906 booklet by Frederick Clemson Howe, *Confessions of a Monopolist*.

Corporate Socialism is Making Society Work for the Elites

"Frederick Howe's role in the 1917 Bolshevik Revolution and its aftermath was described in *Wall Street and the Bolshevik Revolution*. Howe also emerges in Roosevelt's New Deal as consumer counsel in the Agricultural Adjustment Administration. So Howe's interest in society and its problems spans the early 20th century, from his association with Newton D. Baker, later Secretary of War, to communist Lincoln Steffens. As a special U.S. Commissioner, Howe made studies of municipal ownership of public utilities in England and in 1914 was appointed by President Wilson as U.S. Commissioner of Immigration.

"What is the secret of making great wealth? Howe answers the question as follows: 'Mr. Rockefeller may think he made his hundreds of millions by economy, by saving on his gas bills, but he didn't. He managed to get the people of the globe to work for him....'

"In brief, corporate socialism is intimately related to making society work for the few.

The Monopolists Get the Planet to Work for Them

"This is the significant theme in Howe's book, expressed time and time again, with detailed examples of the 'let others work for you' system at work. How did Mr. Rockefeller and his fellow monopolists get the globe to work for them? It went like this, according to Howe:

"This is the story of something for nothing – of making the other fellow pay. This making the other fellow pay, of getting something for nothing, explains the lust for franchises, mining rights, tariff privileges, railway control, tax evasions. All these things mean monopoly, and all monopoly is bottomed on legislation.

"And monopoly laws are born in corruption. The commercialism of the press, or education, even of sweet charity, is part of the price we pay for the special privileges created by law. The desire of something for nothing, of making the other fellow pay, of monopoly in some form or other, is the cause of corruption. Monopoly and corruption are cause and effect. Together, they work in Congress, in our Commonwealths, in our municipalities. It is always so. It always has been so. Privilege gives birth to corruption, just as the poisonous sewer breeds disease. Equal chance, a fair field and no favors, the 'square deal' are never corrupt. They do not appear in legislative halls nor in Council Chambers. For these things mean

labor for labor, value for value, something for something. This is why the little business man, the retail and wholesale dealer, the jobber, and the manufacturer are not the business men whose business corrupts politics.

A Politically Run Economy

"Howe's opposite to this system of corrupt monopoly is described as 'labor for labor, value for value, something for something.' But these values are also the essential hall marks of a market system, that is, a purely competitive system, where market clearing prices are established by impartial interaction of supply and demand in the market place. Such an impartial system cannot, of course, be influenced or corrupted by politics. The monopoly economic system based on corruption and privilege described by Howe is a politically run economy. It is at the same time also a system of disguised forced labor, called by Ludwig von Mises the *Swangswirtschaft* system, a system of compulsion. It is this element of compulsion that is common to all politically run economies: Hitler's New Order, Mussolini's corporate state, Kennedy's New Frontier, Johnson's Great Society, and Nixon's Creative Federalism. Compulsion was also an element in Herbert Hoover's reaction to the depression and much more obviously in Franklin D. Roosevelt's New Deal and the National Recovery Administration.

Writing the Rules and Regulations to Protect Wealth

"It is this element of compulsion that enables a few – those who hold and gain from the legal monopoly – to live in society at the expense of the many. Those who control or benefit from the legislative franchises and regulation and who influence the government bureaucracies at the same time are determining the rules and regulations to protect their present wealth, prey on the wealth of others, and keep out new entrants from their business. For example to make the point clear, the Interstate Commerce Commission, created in 1880, exists to restrict competition in the transportation industry, not to get the best deal possible for shippers. Similarly, the Civil Aeronautics Board exists to protect the domestic aviation industry, not the airline traveler. For a current example, among hundreds, witness the CAB seizure in July 1974 of a Philippines Air Lines (PAL) DC-10 at San Francisco airport. What sin had PAL committed? The airline merely substituted a DC-10 plane, for which equipment CAB had not granted permission, for a DC-8. Who gained? The domestic U.S. airlines, because of less competition. Who lost? The traveler denied seats and a choice of equipment. Any doubts about whose side the CAB might be on were dispelled by article a few weeks later in *The Wall Street Journal* (August 13, 1974) entitled 'CAB Is an Enthusiastic Backer of Moves to Trim Airline Service, Increase Fares.' This piece contained a gem by CAB vice chairman Whitney Gilliland: 'We've had too much emphasis on passenger convenience in the past.' Gilliland added that the CAB must be more tolerant of capacity-packed planes, 'even if it may mean somebody has to wait a day to get a flight.'

Regulatory Agencies are Devices to Shield Elite Industries from Competition

"In brief, regulatory agencies are devices to use the police power of the state to shield favored industries from competition, to protect their inefficiencies, and to guarantee their profits. And, of course, these devices are vehemently defended by their wards: the regulated businessmen or, as we term them, 'the corporate socialists.'

Corporate Socialism is a System Where the Elite Hold Legal Monopolies

"This system of legal compulsion is the modern expression of Frederic Bastiat's dictum that socialism is a system where everyone attempts to live at the expense of everyone else. Consequently, corporate socialism is a system where those few who hold the legal monopolies of financial and industrial control profit at the expense of all others in society.

The Federal Reserve System is a Private Banking Monopoly

"In modern America the most significant illustration of society as a whole working for the few is the 1913 Federal Reserve Act. The Federal Reserve System is, in effect, a private banking monopoly, not answerable to Congress or the public, but with legal monopoly control over money supply without let or hindrance or even audit by the General Accounting Office. It was irresponsible manipulation of money supply by this Federal Reserve System that brought about the inflation of the 1920s, the 1929 Depression, and so the presumed requirement for a Roosevelt New Deal..." (Antony C. Sutton, *Wall Street and FDR*, New Rochelle, NY: Arlington House Publishers, 1975, pp. 72-75.)

The Literary Path of Support for Corporate Socialism

The corporate directors have subsidized a multitude of books, documents, etc., which argue the case for corporate socialism. Sutton traces part of their ideology in the following paragraphs:

"One can trace a literary path by which prominent financiers have pushed for national planning and control for their own benefit and that ultimately evolved into the Roosevelt New Deal.

"In the years following the 1906 publication of Howe's *Confessions of a Monopolist*, Wall Street financiers made book-length literary contributions, none quite as specific as Howe, but all pushing for the legal institutions that would grant the desired monopoly and the control that flows from this monopoly. From these books, we can trace New Deal ideas and the theoretical base upon which corporate socialism later came to be justified. Two themes are common in these Wall Street literary efforts. First, that individualism, individual effort, and individual initiative are out of date and that 'destructive' competition, usually termed 'blind competition'

or 'dog-eat-dog competition' is outmoded, unwanted, and destructive of human ideals. Second, we can identify a theme that follows from this attack on individualism and competition to the effect that great advantages accrue from cooperation, that cooperation advances technology, and that cooperation prevents the 'wastes of competition.' It is then concluded by these financier philosophers that trade associations and ultimately economic planning – in other words, enforced 'cooperation – are a prime objective for responsible and enlightened modern businessmen.

"Such themes of cooperation and rejection of competition are expressed in different ways and with varying degrees of lucidity. Businessmen are not persuasive writers. Their books tend to be turgid, superficially self-seeking, and somewhat weightily pedantic. A few such examples will, however, demonstrate how Wall Street corporate socialists made their case.

The Leading Wall Street Proponents of Corporate Socialism

"Bernard Baruch was ... [an] outstanding corporate socialist.... After Baruch and the Warburgs, also discussed in the next chapter, the next most prolific writer was influential banker Otto Kahn of Kuhn, Loeb & Co.

"Kahn is notable for his support of both the Bolshevik Revolution and Benito Mussolini, support which he concretized in such totalitarian expressions as, 'The deadliest foe of democracy is not autocracy but liberty frenzied.' On socialism, Otto Kahn stated his sympathy toward its objectives on many occasions. For instance his address to the socialist League of Industrial Democracy in 1924 included the following:

"Let me point out that such measures as, for instance, the progressive income tax, collective bargaining by employees, the eight-hour day, the governmental supervision and regulation of railroads and of similar natural monopolies or semi-monopolies, are approved by the sense of justice of the business community, provided the application of such measures is kept within the limits of reason, and that they would not be repealed by business if it had the power to repeal them.

"What you Radicals and we who hold opposing views differ about, is not so much the end as the means, not so much what should be brought about as how it should and can be brought about, believing as we do, that rushing after the Utopian not only is fruitless and ineffectual, but gets into the way of, and retards, progress toward realizing attainable improvement.

"With all due respect, I venture to suggest that Radicalism too often tends to address itself more to theoretical perfection than to concrete amelioration; to phantom grievances, or grievances of the past, which have lost their reality, rather than to actual matters of the day; to slogans, dogmas, professions, rather than to facts.

"A number of these financier-philosophers from Wall Street were trustees of the Brookings Institution in Washington, D.C., responsible for many of the policy guides to achieve this desired system. Robert S. Brookings, founder of the Brookings Institution, is generally termed an economist, but Brookings himself wrote: 'I certainly have no claim to that professional title. I write only as one who, through a long business experience of more than sixty years, has had much to do with manufacturing and distribution...' In his self-described role of businessman, Brookings published three books: *Industrial Ownership*, *Economic Democracy*, and *The Way Forward*. In these three books, Brookings argues that classical political economy, as reflected in the work of Adam Smith and his school,

"While logically convincing, was actually incomplete in that it made no allowance for the moral and intellectual development of man and his dependence on nationalism for its expression, so ably presented later by Adam Muller and Frederick List, or for the economic influence of mechanical production upon the relation of capital to labor.

Rejection of the Free Market System

"Consequently, but without presenting his evidence, Brookings rejects the free enterprise ideas of Adam Smith and accepts the statist ideas of List – also, by the way, reflected in the Hitlerian corporate state. From rejection of free enterprise Brookings finds it quite easy to deduce a 'moral' system rejecting the market place and substituting an approximation to the Marxist labor theory of value. For example, Brookings writes:

"A sound system of economic morality demands therefore that instead of our paying labor merely a market wage, the minimum necessary to secure its services, capital should receive the market wage necessary to secure its services, and the balance should go to labor and the consuming public.

The Elite Attack the Free Market System

"From this quasi-Marxist argument Brookings constructs, rather vaguely and without detailed support, the outlines of proposals needed to combat the 'evils' of the prevailing market system. Of these proposals, 'The first is the revision of the anti-trust laws in such a way as to permit extensive cooperation.' This, argues Brookings, would have two effects: advance research and development and flatten out the business cycle. Just how these objectives follow from 'cooperation' is not stated by Brookings, but he cites Herbert Hoover at length to support his argument, and particularly Hoover's article, 'If Business Doesn't, Government Will.'

"Then, like any good socialist, Brookings concludes: 'Efficiently managed corporations have nothing to fear from intelligent public supervision designed to protect the public and the trade alike from grasping and intractable minorities.' This is necessary because, Brookings argues elsewhere, statistics indicate that most

businesses operate inefficiently, 'So we know from sad experience that blind or ignorant competition has failed to make its reasonable contribution through earnings to our national economic needs.'

Brookings Attacks the Profit Motive

"In 1932 Brookings emerged from his shell in *The Way Forward* to become even more outspoken about developments in Soviet Communism:

"The verbal damning of communism now prevalently popular in the United States will get us nowhere. The decision between capitalism and communism hinges on one point. Can capitalism adjust itself to this new age? Can it move out from its old individualism, dominated by the selfish, profit motive, and so create a new co-operative epoch with social planning and social control, that can serve, better than it has, the welfare of all the people? If it can, it can survive. If it cannot, some form of communism will be forced upon our children. Be sure of that!

Brookings Supports Fascism

"And in the same book Brookings had good words to say about another forced labor system, Italian fascism:

"Although Italy is an autocracy under the dictatorship of the Duce, every economic interest of the country is afforded opportunity for discussion and negotiation so that they may, by mutual agreement, arrive at a fair compromise of their differences. The government will not permit, however, either through lockouts or strikes, any interference with the productivity of the nation, and if, in the last analysis, the groups fail to agree among themselves, the government through its minister or the labor court determines the solution of all problems. In Italy as elsewhere, however, the autocracy of capital seems to exist, and the general feeling among the working classes is that government favors the employers.'

"What then is preeminent in Brookings' writing in his predilection for *any* social system, communism, fascism, call it what you will, that reduces individual initiative and effort and substitutes collective experience and operation. What is left unsaid by Brookings and his fellow financier philosophers is the identity of the few running the forced labor collective. It is implicit in their arguments that the operators of the system, will be the corporate socialists themselves.

George W. Perkins Attacks the Free Enterprise System

"From the purely theoretical proposals of Brookings we can move to those of George W. Perkins, who combined parallel proposals with some effective, but hardly moral ways of putting them into practice.

"George W. Perkins was the forceful, energetic builder of the great New York Life Insurance Company. Perkins was also, along with Kahn and Brookings, an articulate expounder of the evils of competition and the great advantages to be gained from ordered cooperation in business. Perkins preached this collectivist theme as one of a series of lectures by businessmen at Columbia University in December 1907. His speech was hardly a roaring success; biographer John Garraty claims that when it was over:

"...The President of Columbia, Nicholas Murray Butler, hurried off without a word of congratulations, evidently believing, according to Perkins, that he had unwittingly invited a dangerous radical to Morningside Heights. For Perkins had attacked some of the basic concepts of competition and free enterprise.

"Garraty summarizes Perkins' business philosophy:

"The fundamental principle of life is co-operation rather than competition – such was the idea that Perkins developed in his talk. Competition is cruel, wasteful, destructive, outmoded; co-operation, inherent in any theory of a well-ordered Universe, is humane, efficient, inevitable and modern.

Planning Proposals for Material and Human Resources

"Again, as with Brookings, we find proposals for 'elimination of waste' and more 'planning' for material and human resources and the concept that big business has 'responsibilities to society' and is more likely to act fairly toward labor than small business. These high-sounding phrases are, of course, impressive – particularly if New York Life Insurance had lived up to its social do-good sermons. Unfortunately, when we probe further, we find evidence of wrongdoing by New York Life Insurance and investigation of this wrongdoing by the State of New York, which found a decidedly antisocial ring about New York Life's corporate behavior. In 1905-06 the Armstrong Committee (the New York State Legislature Joint Committee on Investigation of Life Insurance) found that New York Life Insurance Company had been a liberal contributor to the Republican National Committee in 1896, 1900, and 1904. Without question, these financial contributions were to advance the interests of the company in political circles. In 1905 John A. McCall, president of New York Life Insurance, was called before the New York investigating committee and proceeded to advance the idea that the defeat of Byran and free silver coinage was for him a *moral* issue. According to McCall, '...I consented to a payment to defeat Free Silver, not to defeat the Democratic party, but to defeat the Free Silver heresy, and thank God that I did it.'

Corporate Financiers Do Not Support the U.S. Constitution

"At the same hearing the vice president of Mutual Life Insurance also advanced the interesting concept that business had a 'duty' to 'scotch' unwelcome ideas and policies. The history of corporate financing of politics has hardly maintained the

principles of the Constitution and a free society. More specifically, there is a gross inconsistency between the social do-good principles of cooperation advanced by Perkins and his fellow businessmen and the contemporary antisocial behavior of his own New York Life Insurance Company.

Corporate Socialism is a Vehicle to Acquire Wealth at the Expense of Society

"In brief, the principles of corporate socialism are but a thin veneer for the acquisition of wealth by a few at the expense of the many.

"We can now look profitably at the preaching of those financiers more intimately associated with Roosevelt and the New Deal. One such financier-philosopher who expressed his collectivist ideas in writing was Edward Filene (1860-1937). The Filenes were a family of highly innovative businessmen, owners of the large department store William Filene's Sons Co. in Boston. A vice president of Filene's became one of the three musketeers running the National Recovery Administration in 1933; the other two of the triumvirate were Walter Teagle, president of Standard Oil and John Raskob, vice president of Du Pont and General Motors.

Edward Filene Supports Corporate Socialism

"From the turn of the century Edward Filene concerned himself with public affairs. He served as chairman of the Metropolitan Planning Commission of Boston, promotor of people's banks, and provided assistance to various cooperative movements. Filene was active in the Red Cross and the U.S. Chamber of Commerce; a founder of the League to Enforce Peace; a founder and later president of the Cooperative League, subsequently renamed the Twentieth Century Fund; and a member of the Foreign Policy Association and the Council on Foreign Relations. In Roosevelt's era Filene was chairman of the Massachusetts State Recovery Board and active in the 1936 campaign for FDR's reelection. Filene wrote several books, of which two, *The Way Out* (1924) and *Successful Living in this Machine Age*, (1932), express his philosophical leanings. In *The Way Out*, Filene emphasizes the theme of reducing waste, and the shortsightedness of competition and stresses the value of cooperation between business and government. Filene summarizes his argument as follows:

"Two things are clear. The first is that the business in order to be good business must itself be conducted as a public service. The second is that the finest possible public service of business men is that rendered in and through the private businesses of the world.

"This 'public service is private business' theme is expanded in another of his books:

"My own attitude is that business must undertake social planning, but neither for the purpose of snuffing out new theories nor of preserving old ones, but because there has been a social revolution. The old order has gone and by no possibility can we bring it back. We are living in a new world. It is a world in which mass production has related everybody to everybody; and our plans, therefore, must take everybody into consideration.

The Road to War

"We also find in Filene 'the road to peace is the balance of power' argument – a repeat of a 19th-century formula resurrected by Henry Kissinger in the 1970s and one that has always ultimately led to war rather than peace. Filene phrases his version as follows:

"No wonder there was war. Peace, it was soon discovered, could be maintained only by a balance of power between the larger competitors, and that balance of power was frequently upset. Eventually the whole impossible situation exploded in the greatest war of human history. The World War did not cause the world change which we have lately been noting. It was, rather, one of the phenomena of that change, just as the French Revolution was a phenomenon of the First Industrial Revolution.'

Myron C. Taylor – Chairman of U.S. Steel

"This theme of promotion of the public interest as a matter of primary benefit to business itself is also found in Myron C. Taylor, chairman of United States Steel Company. The public interest, Taylor argues, needs cooperation by business for rational production. The blindness of big business is clear when Taylor denies this would also be restraint of trade. Taylor omits to explain how we can adjust production to consumption without compulsion of those who may not want to cooperate. Taylor summarizes his proposals as follows:

"The point, then, is to discover what we as a nation possess and to learn to use it rather than go out in search of the new only because it is new. The primary responsibility is on industry to find ways to promote the public interest and the interests of its own producers, employees, distributors, and customers, by making and carrying out whatever constructive plans may be permissible under the present laws, acting openly and, so far as possible, in cooperation with the Government. I confess I find it extremely hard to believe that constructive, cooperative plans sincerely undertaken by a basic industry for rationally adjusting production to demand in that industry, and which avoid any attempt artificially to fix or control prices, can be fairly regarded as in restraint of trade and commerce. For the sole effect would be to remove vital impairments of production, trade, and commerce, and to promote the public interests.

Walter C. Teagle – President of Standard Oil

"The Standard Oil contribution to this liturgy is expressed by Walter C. Teagle, president of Standard Oil Company of New Jersey and appointed by President Roosevelt to a top position in his NRA. Teagle phrases his version of corporate socialism as follows:

"The ills of the oil industry are peculiar to that industry and require peculiar remedies. These are modification of anti-trust laws, cooperation among producers, and the exercise of the policing power of the States.'

"More bluntly than the others, Teagle wants the police power of the State to enforce voluntary cooperation:

"Voluntary cooperation within the industry is not sufficient to remedy its ills. It would not be sufficient even if legal restrictions on cooperation were removed, although tremendous progress would result from the removal of such restrictions.

"To protect the correlative rights of producers and to enforce adequate conservation laws the police power of the State must be employed. This is a matter for State, rather than Federal action, but cooperation among various States and among the operating units of the industry will also be needed if production in the country at large is to be limited to the nation's markets. The solution of the problem therefore depends upon voluntary cooperation within the industry, upon exercise of the police power of the State, and upon cooperation among the various States concerned and among unites (sic) of the industry in the different States. To permit this both State and Federal anti-trust laws will need to be revised.'

Bernard Baruch – The Most Prestigious Financier of All Time

"These extracts reflect the basic outlook of our Wall Street financier philosophers. These were not minor figures on the Street. On the contrary, they were the powerful and influential elements and in significant cases associated with Roosevelt and the New Deal. Otto Kahn was a prime mover in the Federal Reserve System. Lamont and Perkins were key figures in the banking and insurance fields. Businessman Brookings gave his name and money to the influential research institute that produced the reports upon which much policy came to be based. Louis Kirstein, a vice president of Filene's firm, and Walter Teagle of Standard Oil became two of the three dominant men who ran the National Recovery Administration under Bernard Baruch's protege Hugh Johnson. Bernard Baruch was probably the most prestigious Wall Streeter of all time, perhaps even exceeding in influence both Morgan and Rockefeller. We will examine Baruch and the Warburgs next.

Wall Street Financiers Favor Every System Except the Free Market

"What was the philosophy of the financiers so far described? Certainly *anything* but laissez-faire competition, which was the last system they envisaged. Socialism, communism, fascism or their variants were acceptable. The ideal for these financiers was 'cooperation,' forced if necessary. Individualism was out, and competition was immoral. On the other hand, cooperation was consistently advocated as moral and worthy, and nowhere is compulsion rejected as immoral. Why? Because, when the verbiage is stripped away from the high-sounding phrases, compulsory cooperation was their golden road to a legal monopoly. Under the guise of public service, social objectives, and assorted do-goodism, it is fundamentally "Let society go to work for Wall Street." (Antony C. Sutton, *Wall Street and FDR*, pp. 75-83.)

Bernard Baruch's Influence in Washington, D.C.

One of Wall Street's most prominent and powerful figures in the past was Bernard Baruch. As head of the War Industries Board he was the economic dictator of America in 1918. Baruch had a great deal more influence on Roosevelt's New Deal policies than historians admit. Sutton sketched Baruch's influence in Washington as follows:

"While the Federal Reserve System and its private legal monopoly of the money supply has been a fount of wealth for its operators, the ultimate goal of making society work for the few as outlined by Frederick Howe and Clinton Roosevelt can be brought about only by planned control of the whole economy, and this requires compulsory adherence of the many smaller entrepreneurs to the dictates of the few deciding the plans to be followed.

A Device to Control the Unwanted Rigors of Competition

"The genesis of Roosevelt's NRA, a system that included compulsory adherence by small entrepreneurs to a plan devised by big business, can be traced from Bernard Baruch's U.S. War Industries Board, established and elaborated as an emergency wartime measure. In 1915, before the U.S. entered World War I, Howard E. Coffin, then chairman of General Electric, headed the U.S. Committee on Industrial Preparedness. In company with Bernard Baruch and Daniel Willard of the Baltimore and Ohio Railroad, Coffin was also a member of the Advisory Commission to the Council of National Defense. In 1915 Bernard Baruch was invited by President Woodrow Wilson to design a plan for a defense mobilization committee. This Baruch plan subsequently became the War Industries Board, which absorbed and replaced the old General Munitions Board. Margaret L. Coit, Baruch's biographer, describes the War Industries Board as a concept similar to cooperative trade associations, a device long desired by Wall Street to control the unwanted rigors of competition in the market place.

"Committees of industry, big business and small business, both represented in Washington, and both with Washington representation back home – this could be the backbone of the whole structure.

Wilson Appoints Baruch as Chairman of the War Industries Board

"By March 1918 President Wilson acting without Congressional authority, had endowed Baruch with more power than any other individual had been granted in the history of the United States. The War Industries Board, with Baruch as its chairman, became responsible for building all factories and for the supply of all raw material, all products, and all transportation, and all its final decisions rested with chairman Bernard Baruch. In brief, Baruch became economic dictator of the United States, or 'Marshal of Manufacturers' in Clinton Roosevelt's scheme. Yet, as Margaret Coit points out, '...the creation of this office was never specifically authorized by an Act of Congress.'

"So by the summer of 1918 Baruch, with extraordinary and unconstitutional powers, had, in his own words, 'finally developed a scheme of positive control' over the major portion of the industrial fabric.... Success bred courage for more success, and trade after trade was taken under control with an increasing willingness on the part of the interests affected.'

"At the time of the Armistice the W.I.B. comprised Baruch (chairman), Alexander Legge of International Harvester (vice chairman), with E.B. Parker and R.S. Brookings (whose ideas we have already examined) in charge of price fixing. Assistants to the chairman were: Herbert Bayard Swope, brother of Gerard Swope of General Electric; Clarence Dillon of the Wall Street firm Dillon, Read & Co.,; Harrison Williams; and Harold T. Clark.

Economic Planning in Peacetime

"Baruch's final report on W.I.B. activity was much more than a history of its operations; it was also a specific plan and recommendation for economic planning in peacetime. Baruch was not content merely to summarize the lessons to be learned for planning in war or for industrial preparedness in time of uneasy peace. On the contrary, Baruch's conclusions were directed, in his own words, to the 'industrial practices of peace' and to make recommendations 'relating to the business practices of normal times.' The bulk of the conclusions relate to change-over of a *planned* wartime economic system to a *planned* peacetime economic system, and even the suggestions for wartime practice are related to peacetime functions. Baruch suggested that the most important 'direct war lessons to be derived' from the operation of the War Industries Board were:

"1. The establishment of a peacetime skeleton organization with 50 commodity divisions, meeting to keep abreast of the development of industry and develop information. The thrust of this proposal was that the information needed

for peacetime planning should be collected and that the direction of the organization should stem from large-scale or major industry.

"2. That the government 'should devise some system for protecting and stimulating internal production of certain raw materials used in war,' and

"3. That war-related industries should be encouraged by the government to maintain skeleton organizations for wartime use.

Baruch Lays the Plan for Centralized Economic Planning in U.S.

"Apart from these quite elementary suggestions, Baruch is exclusively concerned in the report with peacetime 'planning.' First we are presented with the canard that, in some unstated way, 'the processes of trade' have changed and are now forced to give way before 'certain new principles of supervision.' This non sequitur is followed by the statement:

"'We have been gradually compelled to drift away from the old doctrine of Anglo-American law, that the sphere of Government should be limited to preventing breach of contract, fraud, physical injury and injury to property, and that the Government should exercise protection only over noncompetent persons.'

"It is necessary, writes Baruch, for government 'to reach out its arm' to protect 'competent individuals against the discriminating practices of mass industrial power.' While Baruch points to Federal control of the railroads and the merchant fleet, he does not state *why* the representatives of big business would be the best fitted to exercise this control. In other words, why the fox is proposed as the most competent being to run the chicken coop is left unstated. Baruch then slashes at the Sherman and Clayton anti-trust laws on the grounds that these statutes are merely efforts to force industry into the mold of 'simpler principles sufficient for the conditions of a bygone day,' and lauds the achievement of the War Industries Board because it had constructed hundreds of trade associations controlling prices and methods of distribution and production:

Centralizing Economic Power in Washington, D.C.

"'Many businessmen have experienced during the war, for the first time in their careers, the tremendous advantages, both to themselves and to the general public, of combination, of cooperation and common action with their natural competitors.'

"If these cooperative attributes are not continued, argues Baruch, then businessmen will be tempted 'and many of them will be unable to resist' to conduct 'their business for private gain with little reference to general public welfare.' On the other hand, trade associations can be of the greatest public benefit to achieve the desired end of cooperation. Baruch concludes:

"The question, then is what kind of Government organization can be devised to safeguard the public interest while these associations are preserved to carry on the good work of which they are capable.'

The Objectives of Bernard Baruch and Karl Marx are Identical

"Baruch, like any good socialist, proposes government organizations to develop these principles of cooperation and coordination.

"If the reader will shed for a moment the idea of a mutual antagonism between communism and capitalism, he will readily see in the writing of Bernard Baruch the basic objectives of Karl Marx writing in *The Communist Manifesto*. What is different between the two systems are the names of the elitist few running the operation known as state planning; the vanguard of the proletariat in Karl Marx is replaced by the vanguard of big business in Bernard Baruch.

The Elite Gain from Central Economic Planning of Society

"Who would gain from Baruch's proposal? The consumer? Not at all, because consumer interests are *always* protected by free competition in the market place, where goods and services are produced at the least cost, in the most efficient manner, and the consumer is given maximum choice among competing producers. The gainers from Baruch's proposals would be the few who control major industrial sectors – particularly iron and steel, raw materials, electrical goods, that is, those industries already well established and fearful of competition from more enterprising newcomers. In other words, the gainers from his proposal would be Bernard Baruch and the Wall Street coterie that effectively controls big business through its interlocking directorships. The gut issue then is: who benefits from these proposals for trade associations and government coordination of industry? The principal, indeed the only major benefactors-apart from the swarms of academic advisers, bureaucrats, and planners – would be the financial elite in Wall Street.

"So here we have, in Baruch's own words and ideas, an implementation of Frederick Howe's injunction to 'make society work for you,' the monopolist." (Antony C. Sutton, *Wall Street and FDR*, pp. 88-89.)

The Introduction of Keynesian Economics in America

In a chapter entitled, "FDR and the Corporate Socialist," Sutton summarizes his findings and concludes:

"It was under Roosevelt that quaint Keynesian notions – the modern versions of John Laws' con game with paper money – were introduced to Washington, and so the seeds of our present economic chaos were laid in the early 1930s under Roosevelt. Contemporary double digit inflation, a bankrupt Social Security system,

bumbling state bureaucracy, rising unemployment – all this and more can be traced to Franklin Delano Roosevelt and his legislative whirlwind.

A Looting of the American Economy

"But while we now pay the price for these unsound and irresponsible policies, so pervasive in prevailing misinformation that even the identity of the originators of Roosevelt's New Deal and their reasons have been forgotten. While our economists cover their blackboards with meaningless static equations, a dynamic looting operation of the economy has been in progress by the authentic formulators of the liberal New Deal. While the bleeding heart social engineers have screamed at capitalism as the cause of the world's misery, they have been blissfully unaware that their *own* social formulas in part emanated from – and have certainly been quietly subsidized by – these same so-called capitalists. The tunnel vision of our academic world is hard to beat and equalled only by their avarice for a piece of the action....

"Certainly, if sheer weight of printed paper has any influence, the power of any financial elite should have collapsed long ago. The establishment does appear to have considerable endurance, but nowhere near as much influence as many believe. The most important leg sustaining the credibility and so the power of the elite is the academic community. This group has, in large part, swapped truth and integrity for a piece of the political power and the financial action. Apparently academics can be bought – and you don't have to pay overly much.'

Elite Legislation Seeks to Create Legal Monopolies

"What we do find is that government intervention into the economy is the root of our present problems; that a Wall Street coterie has substantive, if subtle, muscle within this government structure to obtain legislation beneficial to itself; and that a prime example of this self-seeking legislation to establish legal monopoly under big business control was FDR's New Deal and, in particular, the National Recovery Administration....

The Thesis of Corporate Socialism

"The economic recovery part of the New Deal was a creation of Wall Street – specifically Bernard Baruch and Gerard Swope of General Electric – in the form of the Swope Plan.... [W]e expanded upon the idea of the politicization of business and formulated the thesis of corporate socialism: that the political way of running an economy is more attractive to big business because it avoids the rigors and the imposed efficiency of a market system. Further, through business control or influence in regulatory agencies and the police power of the state, the political system is an effective way to gain a monopoly, and a legal monopoly *always* leads to wealth. Consequently, Wall Street is intensely interested in the political arena and supports those political candidates able to maximize the amount of political

decision-making under whatever label and minimize the degree to which economic decisions in society are made in the market place. In brief, Wall Street has a vested interest in politics because through politics it can make society go to work for Wall Street. It can also thus avoid the penalties and risks of the market place....

Wall Street Creates a Central Banking Monopoly

"Under Woodrow Wilson Wall Street achieved a central banking monopoly, the Federal Reserve System. The significance of the International Acceptance Bank, controlled by the financial establishment in Wall Street, was that the Federal Reserve banks used the police power of the state to create for themselves a perpetual money-making machine: the ability to create money with a stroke of a pen or the push of a computer key. The Warburgs, key figures in the International Acceptance Bank – an overseas money-making machine – were advisers to the Roosevelt administration and its monetary policies. Gold was declared a 'barbaric relic,' opening the way to worthless paper money in the United States. In 1975, as we go to press, the fiat inconvertible dollar is obviously on the way to ultimate depreciation.

Wall Street Engineers Removal of Gold as Backing for American Currency

"Did Wall Street recognize the result of removing gold as backing for currency? Of course it did! Witness Paul Warburg to a Congressional Committee:

"'Abandonment of the gold standard means wildly fluctuating foreign exchanges and, therefore, the destruction of the free inflow of foreign capital and business. Weak countries will repudiate – or, to use the more polite expression, 'fund their debts' – but there will be no general demonetization of gold. Gold at the end of the war will not be worth less but more.'

A Financial Elite Whose Objective is the Monopoly Acquisition of Wealth

"The inevitable conclusion forced upon us by the evidence is that there may indeed exist a financial elite, as pointed out by Franklin D. Roosevelt, and that the objective of this elite is monopoly acquisition of wealth. We have termed this elite advocates of corporate socialism. It thrives on the political process, and it would fade away if it were exposed to the activity of a free market. The great paradox is that the influential world socialist movement, which views itself as an enemy of this elite, is in fact the generator of precisely that politicization of economic activity that keeps the monopoly in power and that its great hero, Franklin D. Roosevelt, was its self-admitted instrument." (Antony C. Sutton, *Wall Street and FDR*, pp. 171, 173-174, 176-177.)

The Development of Giant Monopolies to Rule the World Economy

Sutton's writings once again demonstrate the power of the international bankers, investment bankers, and corporate directors. They dominate not only Wall Street but every financial center in the world and the global economy. The objective of this triangular financial system is political power and financial gain. Their strategy is to empower governments to aid in their development of giant monopolies which will dominate and rule the world economy. In other words, a 'world system of financial control in private hands able to dominate the political system of each country and the economy of the world as a whole.' (Carroll Quigley, *Tragedy and Hope*, The Macmillan Company, N.Y., 1966, p. 324.)

Part IV – Wall Street and the Rise of Hitler

One of the most incredible secrets of World War II is that Hitler's rise to power can be attributed to key Wall Street financiers and other international bankers and businessmen in Europe. In Professor Sutton's third book on Wall Street, he provides conclusive evidence that World War II was extremely profitable for select groups of the financial elite. Sutton carefully traces the financial support of Hitler through original documents and eye-witness accounts which prove that German industrialists and Wall Street financiers played a substantial role in the rise of Nazism.

The Rise of Modern Socialism

The rise of modern socialism and its support by the elite power structure is no accident. Sutton demonstrates that the same firms, and often the identical figures which were responsible for the Bolshevik Revolution in 1917, the financial and political backing of Franklin D. Roosevelt for president of the United States in 1933 also aided in the rise of Hitler.

Only Key Corporations Involved in the Official Circle of Financial Elite

At the beginning of his book, Sutton pointed out that not every major corporation is involved in the 'official' circle of the financial elite. He stated:

"...American companies associated with the Morgan-Rockefeller international investment bankers – not, it should be noted, the vast bulk of independent American industrialists – were intimately related to the growth of Nazi industry. It is important to note as we develop our story that General Motors, Ford, General Electric, DuPont and the handful of U.S. companies intimately involved with the development of Nazi Germany were – except for the Ford Motor Company – controlled by the Wall Street elite – the J. P. Morgan firm, the Rockefeller Chase Bank and a lesser extent the Warburg Manhattan bank. This book is not an indictment of *all* American industry and finance. It is an indictment of the 'apex' – those firms controlled through the handful of financial houses, the Federal Reserve

Bank system, the Bank for International Settlements, and their continuing international cooperative arrangements and cartels which attempt to control the course of world politics and economics." (Antony C. Sutton, *Wall Street and the Rise of Hitler*, Seal Beach: 76 Press, 1977, pp. 31-32.)

Wall Street and the Rise of Hitler

Sutton provides the reader of *Wall Street and the Rise of Hitler* with a superb summary of his findings of the role played by certain American corporate directors in financing the emergence of international socialism. The evidence which he amassed is incredibly revealing:

"We have demonstrated with documentary evidence a number of critical associations between Wall Street international bankers and the rise of Hitler and Naziism in Germany.

"First: that Wall Street financed the German cartels in the mid-1920s which in turn proceeded to bring Hitler to power.

"Second: that the financing for Hitler and his S.S. street thugs came in part from affiliates or subsidiaries of U.S. firms, including Henry Ford in 1922, payments by I.G. Farben and General Electric in 1933, followed by the Standard Oil of New Jersey and I.T.T. subsidiary payments to Heinrich Himmler up to 1944.

"Third: that U.S. multi-nationals under the control of Wall Street profited handsomely from Hitler's military construction program in the 1930s and at least until 1942.

"Fourth: that these same international bankers used political influence in the U.S. to cover up their wartime collaboration and to do this infiltrated the U.S. Control Commission for Germany.

"Our evidence for these four major assertions can be summarized as follows:

The Dawes and Young Plans for German Reparations

"In Chapter One we presented evidence that the Dawes and Young Plans for German reparations were formulated by Wall Streeters, temporarily wearing the hats of statesmen, and these loans generated a rain of profits for these international bankers. Owen Young of General Electric, Hjalmar Schacht, A Voegler, and others intimately connected with Hitler's accession to power had earlier been the negotiators for the U.S. and German sides, respectively. Three Wall Street houses – Dillon, Read; Harris, Forbes; and, National City Company – handled three-quarters of the reparations loans used to create the German cartel system, including the dominant I.G. Farben and Vereinigte Stahlwerke, which together produced 95 percent of the explosives for the Nazi side in World War II.

The Role of I.G. Farben

"The central role of I.G. Farben in Hitler's *coup d'etat* was reviewed in Chapter Two. The directors of American I.G. (Farben) were identified as prominent American businessmen: Walter Teagle, a close Roosevelt associate and backer and an NRA administrator; banker Paul Warburg (his brother Max Warburg was on the board of I.G. Farben in Germany); and Edsel Ford, Farben contributed 400,000 RM directly to Schacht and Hess for use in the crucial 1933 elections and Farben was subsequently in the forefront of military development in Nazi Germany.

Dominant Wall Streeters in A.E.G.

"A donation of 60,000 RM was made to Hitler by German General Electric (A.E.G.), which had four directors and a 25-30 percent interest held by the U.S. General Electric parent company.... [W]e found that Gerard Swope, an originator of Roosevelt's New Deal (its National Recovery Administration segment), together with Owen Young of the Federal Reserve Bank of New York and Clark Minor of International General Electric, were the dominant Wall Streeters in A.E.G. and the most significant single influence.

A.E.G. Plants Avoid Being Bombed by Allies

"We also found no evidence to indict the German electrical firm Siemens, which was *not* under Wall Street control. In contrast, there is documentary evidence that both A.E.G. and Oscram, the other units of the German electrical industry – both of which had U.S. participation and control – *did* finance Hitler. In fact, almost all directors of German General Electric were Hitler backers, either directly through A.E.G. or indirectly through other German firms. G.E. rounded out its Hitler support by technical cooperation with Krupp, aimed at restricting U.S. development of tungsten carbide, which worked to the detriment of the U.S. in World War II. We concluded that A.E.G. plants in Germany managed, by a yet unknown maneuver, to avoid bombing by the Allies.

The Role of Standard Oil of New Jersey

"An examination of the role of Standard Oil of New Jersey (which was and is controlled by the Rockefeller interests) was undertaken.... Standard Oil apparently did not finance Hitler's accession to power in 1933 (that part of the 'myth of Sidney Warburg' is not proven). On the other hand, payments were made up to 1944 by Standard Oil of New Jersey, to develop synthetic gasoline for war purposes on behalf of the Nazis and, through its wholly owned subsidiary, to Heinrich Himmler's S.S. Circle of Friends for political purposes. Standard Oil's role was technical aid to Nazi development of synthetic rubber and gasoline through a U.S. research company under the management control of Standard Oil. The Ethyl Gasoline Company, jointly owned by Standard Oil of New Jersey and General Motors, was instrumental in supplying vital ethyl lead to Nazi Germany – over the

written protests of the U.S. War Department – with the clear knowledge that the ethyl lead was for Nazi military purposes.

ITT Works Both Sides of World War II

"In Chapter Five we demonstrated that International Telephone and Telegraph Company, one of the more notorious multi-nationals, worked both sides of World War II through Baron Kurt von Schroder, of the Schroder banking group. I.T.T. also held a 28-percent interest in Focke-Wolfe aircraft, which manufactured excellent German fighter planes. We also found that Texaco (Texas Oil Company) was involved in Nazi endeavors through German attorney Westrick, but dropped its chairman of the board Rieber when these endeavors were publicized.

Henry Ford Was an Early Backer of Hitler

"Henry Ford was an early (1922) Hitler backer and Edsel Ford continued the family tradition in 1942 by encouraging French Ford to profit from arming the German Wehrmacht. Subsequently, these Ford-produced vehicles were used against American soldiers as they landed in France in 1944. For his early recognition of, and timely assistance to, the Nazis, Henry Ford received a Nazi medal in 1938. The records of French Ford suggest Ford Motor received kid glove treatment from the Nazis after 1940.

An Indictment of Wall Street

"The provable threads of Hitler financing are drawn together...and answer with precise names and figures the question, who financed Adolf Hitler? This chapter indicts Wall Street and, incidentally, no one else of consequence in the United States except the Ford family. The Ford family is not normally associated with Wall Street but is certainly a part of the 'power elite.'

The Nazi Inner Circle

"In earlier chapters we cited several Roosevelt associates, including Teagle of Standard Oil, the Warburg family, and Gerard Swope. In Chapter Eight the role of Putzi Hanfstaengl, another Roosevelt friend and a participant in the Reichstag fire, is traced. The composition of the Nazi inner circle during World War II, and the financial contributions of Standard Oil of New Jersey and I.T.T. subsidiaries, are traced in Chapter Nine. Documentary proof of these monetary contributions is presented. Kurt von Schroder is identified as the key intermediary in this S.S. 'slush fund.'

A Suppressed Book Reveals the Financing of Hitler

"Finally, in Chapter Ten we reviewed a book suppressed in 1934 and the 'myth of "Sidney Warburg."' The suppressed book accused the Rockefellers, the

Warburgs, and the major oil companies of financing Hitler. While the name 'Sidney Warburg' was no doubt an invention, the extraordinary fact remains that the argument in the suppressed 'Sidney Warburg' book is remarkably close to the evidence presented now. It also remains a puzzle why James Paul Warburg, fifteen years later, would want to attempt, in a rather transparently slipshod manner, to refute the contents of the 'Warburg' book, a book he claims not to have seen. It is perhaps even more of a puzzle why Warburg would choose Nazi von Papen's *Memoirs* as the vehicle to present his refutation.

The Role of the Morgan and Rockefeller Banks in World War II

"Finally, in Chapter Eleven we examined the roles of the Morgan and Chase Banks in World War II, specifically their collaboration with the Nazis in France while a major war was raging.

A Pattern of Subsidy and Political Manipulation

"In other words, as in our two previous examinations of the links between New York international bankers and major historical events, we find a provable pattern of subsidy and political manipulation.

"Looking at the broad array of facts presented in the three volumes of the Wall Street series, we find persistent recurrence of the same names: Owen Young, Gerard Swope, Hjalmar Schacht, Bernard Baruch, *etc.*; the same international banks: J. P. Morgan, Guaranty Trust, Chase Bank; and the same location in New York: usually 120 Broadway.

"This group of international bankers backed the Bolshevik Revolution and subsequently profited from the establishment of a Soviet Russia. This group backed Roosevelt and profited from New Deal socialism. This group also backed Hitler and certainly profited from German armament in the 1930s. When Big Business should have been running its business operations at Ford Motor, Standard of New Jersey, and so on, we find it actively and deeply involved in political upheavals, war, and revolutions in three major countries.

The 1929 Financial Crisis

"The version of history presented here is that the financial elite knowingly and with premeditation assisted the Bolshevik Revolution of 1917 in concert with German bankers. After profiting handsomely from the German hyper-inflationary distress of 1923, and planning to place the German reparations burden onto the backs of American investors, Wall Street found it had brought about the 1929 financial crisis.

Roosevelt and Hitler Plans for Fascist Takeovers of America and Germany

"Two men were then backed as leaders for major Western countries: Franklin D. Roosevelt in the United States and Adolf Hitler in Germany. The Roosevelt New Deal and Hitler's Four Year Plan had great similarities. The Roosevelt and Hitler plans were plans for fascist takeovers of their respective countries. While Roosevelt's NRA failed, due to then-operating constitutional constraints, Hitler's Plan succeeded.

"Why did the Wall Street elite, the international bankers, want Roosevelt and Hitler in power? This is an aspect we have not explored. According to the 'myth of "Sidney Warburg," Wall Street wanted a policy of revenge; that is, it wanted war in Europe between France and Germany. We know even from Establishment history that both Hitler and Roosevelt acted out policies leading to war.

A Remarkable Concentration of Power

"The link-ups between persons and events in this three-book series would require another book. But a single example will perhaps indicate the remarkable concentration of power within a relatively few organizations, and the use of this power.

"On May 1st, 1918, when the Bolsheviks controlled only a small fraction of Russia (and were to come near to losing even that fraction in the summer of 1918), the American League to Aid and Cooperate with Russia was organized in Washington, D.C. to support the Bolsheviks. This was not a 'Hands off Russia' type of committee formed by the communist Party U.S.A. or its allies. It was a committee *created by Wall Street* with George P. Whalen of Vacuum Oil Company as Treasurer and Coffin and Oudin of General Electric, along with Thompson of the Federal Reserve System, Willard of the Baltimore & Ohio Railroad, and assorted socialists.

An Interlock of Elites Support Revolution in the World

"When we look at the rise of Hitler and Naziism we find Vacuum Oil and General Electric well represented. Ambassador Dodd in Germany was struck by the monetary and technical contribution by the Rockefeller-controlled Vacuum Oil Company in building up military gasoline facilities for the Nazis. The Ambassador tried to warn Roosevelt. Dodd believe, in his apparent naivete of world affairs, that Roosevelt would intervene, but Roosevelt himself was backed by these same oil interests and Walter Teagle of Standard Oil of New Jersey and the NRA was on the board of Roosevelt's Warm Springs foundation. So, in but one of many examples, we find the Rockefeller-controlled Vacuum Oil Company prominently assisting in the creation of Bolshevik Russia, the military build-up of Nazi Germany, and backing Roosevelt's New Deal.

"Within the last decade or so, certainly since the 1960s, a steady flow of literature has presented a thesis that the United States is ruled by a self-perpetuating and unelected power elite. Even further, most of these books aver that this elite controls, or at the least heavily influences, all foreign and domestic policy decisions, and that no idea becomes respectable or is published in the United States without the tacit approval, or perhaps lack of disapproval, of this elitist circle.

Flow of Anti-Establishment Literature

"Obviously the very flow of anti-establishment literature by itself testifies that the United States cannot be wholly under the thumb of any single group or elite. On the other hand, anti-establishment literature is not fully recognized or reasonably discussed in academic or media circles. More often than not it consists of a limited edition, privately produced, almost hand-to-hand circulated. There are *some* exceptions, true; but not enough to dispute the observation that anti-establishment critics do not easily enter normal information/distribution channels.

"Whereas in the early and mid-1960s, any concept of rule by...any kind of elite, was reason enough to dismiss the proponent out of hand as a 'nut case,' the atmosphere for such concepts has changed radically. The Watergate affair probably added the final touches to a long-developing environment of skepticism and doubt.... In brief, no one any longer really believes the Establishment information process. And there is a wide variety of alternative presentations of events now available for the curious.

"Several hundred books, from the full range of the political and philosophical spectrum, add bits and pieces of evidence, more hypotheses, and more accusations. What was not too long ago a kooky idea, talked about at midnight behind closed doors,...is now openly debated – not, to be sure, in Establishment newspapers but certainly on non-network radio talk shows, the underground press, and even from time to time in books from respectable Establishment publishing houses.

Is There a Power Elite Behind the U.S. Government?

"So let us ask the question again: Is there an unelected power elite behind the U.S. Government?

"A substantive and often-cited source of information is Carroll Quigley, Professor of International Relations at Georgetown University, who in 1966 had published a monumental modern history entitled *Tragedy and Hope*. Quigley's book is apart from others in this revisionist vein, by virtue of the fact that it was based on a two-year study of the internal documents of one of the power centers. Quigley traces the history of the power elite.

"...the powers of financial capitalism had another far reaching aim, nothing less than to create a world system of financial control in private hands able to dominate the political system of each country and the economy of the world as a whole.'

"Quigley also demonstrates that the Council on Foreign Relations, the National Planning Association, and other groups are 'semi-secret' policy-making bodies under the control of this power elite....

Documentation of the Elite Power Structure

"Possibly, the papers used by Quigley had been vented, and did not include documentation on elitist manipulation of such events as the Bolshevik Revolution, Hitler's accession to power, and the election of Roosevelt in 1933. More likely, these political manipulations may not be recorded at all in the files of the power groups. They may have been unrecorded actions by a small *ad hoc* segment of the elite. It is noteworthy that the documents used by this author came from government sources, recording the day-to-day actions of Trotsky, Lenin, Roosevelt, Hitler, J. P. Morgan and the various firms and banks involved....

"Obviously any such exercise of unconstrained and supra-legal power is unconstitutional, even though wrapped in the fabric of law-abiding actions. We can therefore legitimately raise the question of the existence of a subversive force operating to remove constitutionally guaranteed rights.

"Twentieth-century history, as recorded in Establishment textbooks and journals, is inaccurate. It is a history which is based solely upon those official documents which various Administrations have seen fit to release for public consumption.

Establishment Version of World History is Designed to Hide a Pervasive Fabric of Deceit and Immoral Conduct

"But an accurate history cannot be based on a selective release of documentary archives. Accuracy requires access to all documents. In practice, as previously classified documents in the U.S. State Department files, the British Foreign Office, and the German Foreign Ministry archives and other depositories are acquired, a new version of history has emerged; the prevailing Establishment version is seen to be, not only inaccurate, but designed to hide a pervasive fabric of deceit and immoral conduct.

The Real Center of Political Power in America

"The center of political power, as authorized by the U.S. Constitution, is with an elected congress and an elected President, working within the framework and under the constraints of a Constitution, as interpreted by an unbiased Supreme Court. We have in the past *assumed* that political power is consequently carefully

exercised by the Executive and legislative branch, after due deliberation and assessment of the wishes of the electorate. In fact, nothing could be further from this assumption. The electorate has long suspected, but now knows, that political promises are worth nothing. Lies are the order of the day for policy implementors. Wars are started (and stopped) with no shred of coherent explanation. Political worlds have ever matched political deeds. Why not? Apparently because the center of political power has been elsewhere than with elected and presumably responsive representatives in Washington, and this power elite has its own objectives, which are inconsistent with those of the public at large. (Antony C. Sutton, *Wall Street and FDR*, pp. 163-172.)

Elite Power Structure is Masked from the Public

Professor Sutton's work demonstrates that self-perpetuating, elitist groups of international bankers, investment bankers, and corporate directors have combined to control the wealth, resources, and people on this planet. The financial elite are well above the people and nations of the earth.

The Seat of Political Power in America is Wall Street

Wall Street and the Bolshevik Revolution, *Wall Street and FDR* and *Wall Street and the Rise of Hitler* have greatly aided the researcher in pursuit of truth and understanding of the elite power structures which operate on the earth. Professor Sutton provides the following summary of his trilogy on corporate socialists and international socialism.

"In this three-volume series we have identified for three historical events the seat of political power in the United States – the power behind the scenes, the hidden influence on Washington – as that of the financial establishment in New York: the private international bankers, more specifically the financial houses of J.P. Morgan, the Rockefeller-controlled Chase Manhattan Bank, and in earlier days (before amalgamation of their Manhattan Bank with the former Chase Bank), the Warburgs.

The U.S. Has Become a Quasi-Totalitarian State

"The United States has, in spite of the Constitution and its supposed constraints, become a quasi-totalitarian state. While we do not (yet) have the overt trappings of dictatorship, the concentration camps and the knock on the door at midnight, we most certainly do have threats and actions aimed at the survival of non-Establishment critics, use of the Internal Revenue Service to bring dissidents in line, and manipulation of the Constitution by a court system that is politically subservient to the Establishment.

International Bankers Favor Centralized Power

"It is in the pecuniary interests of the international bankers to centralize political power – and this centralization can best be achieved within a collectivist society, such as socialist Russia, national socialist Germany, or a Fabian socialist United States.

"There can be no full understanding and appreciation of twentieth-century American politics and foreign policy without the realization that this financial elite effectively monopolizes Washington policy.

"In case after case, newly released documentation implicates this elite and confirms this hypothesis. The revisionist versions of the entry of the United States into World Wars I and II, Korea, and Vietnam reveal the influence and objectives of this elite.

The Acquisition of Economic Power and Markets

"For most of the twentieth century the Federal Reserve System, particularly the Federal Reserve Bank of New York (which is outside the control of Congress, unaudited and uncontrolled, with the power to print money and create credit at will), has exercised a virtual monopoly over the direction of the American economy. In foreign affairs the Council on Foreign Relations, superficially an innocent forum for academics, businessmen, and politicians, contains within its shell, perhaps unknown to many of its members, a power center that unilaterally determines U.S. foreign policy. The major objective of this submerged – and obviously subversive – foreign policy is the acquisition of markets and economic power (*profits*, if you will), for a small group of giant multi-nations under the virtual control of a few banking investment houses and controlling families.

Foundations Controlled by the Elite

"Through foundations controlled by this elite, research by compliant and spineless academics, 'conservatives' as well as 'liberals,' has been directed into channels useful for the objectives of the elite essentially to maintain this subversive and unconstitutional power apparatus.

"Through publishing houses controlled by this same financial elite unwelcome books have been squashed and useful books promoted; fortunately publishing has few barriers to entry and is almost atomistically competitive. Through control of a dozen or so major newspapers, run by editors who think alike, public information can be almost orchestrated at will. Yesterday, the space program; today, an energy crisis or a campaign for ecology; tomorrow, a war in the Middle East or some other manufactured 'crisis.'

The Manipulation of Society by the Eastern Establishment

"The total result of this manipulation of society by the Establishment elite has been four major wars in sixty years, a crippling national debt, abandonment of the Constitution, suppression of freedom and opportunity, and creation of a vast credibility gulf between the man in the street and Washington, D.C. While the transparent device of two major parties trumpeting artificial differences, circus-like conventions, and the cliché of 'bipartisan foreign policy' no longer carries credibility, and the financial elite itself recognizes that its policies lack public acceptance, it is obviously prepared to go it alone without even nominal public support.

Is the Elite Power Structure a Subversive Force?

"In brief, we now have to consider and debate whether this New York-based elitist Establishment is a subversive force operating with deliberation and knowledge to suppress the Constitution and a free society. That will be the task ahead in the next decade.

"The arena for this debate and the basis for our charges of subversion is the evidence provided by the revisionist historian. Slowly, over decades, book by book, almost line by line, the truth of recent history has emerged as documents are released, probed, analyzed, and set within a more valid historical framework.

The Eastern Establishment Wanted War with Japan

"Let us consider a few examples. American entry into World War II was supposedly precipitated, according to the Establishment version, by the Japanese attack on Pearl Harbor. Revisionists have established that Franklin D. Roosevelt and General Marshall *knew* of the impending Japanese attack and did nothing to warn the Pearl Harbor military authorities. The Establishment wanted war with Japan. Subsequently, the Establishment made certain that Congressional investigation of Pearl Harbor would fit the Roosevelt whitewash. In the words of Percy Greaves, chief research expert for the Republican minority on the Joint Congressional Committee investigating Pearl Harbor:

"The complete facts will never be known. Most of the so-called investigations have been attempts to suppress, mislead, or confuse those who seek the truth. From the beginning to the end, facts and files have been withheld so as to reveal only those items of information which benefit the administration under investigation. Those seeking the truth are told that other facts or documents cannot be revealed because they are intermingled in personal diaries, pertain to our relations with foreign countries, or are sworn to contain no information of value.

Elite Moved U.S. into World War I

"But this was not the first attempt to bring the United States into war, or the last. The Morgan interests, in concert with Winston Churchill, tried to bring the U.S. into World War I as early as 1915 and succeeded in doing so in 1917. Colin Thompson's *Lusitania* implicates President Woodrow Wilson in the sinking of the *Lusitania* – a horror device to generate a public backlash to draw the United States into war with Germany. Thompson demonstrates that Woodrow Wilson knew *four days beforehand* that the *Lusitania* was carrying six-million rounds of ammunition plus explosives, and therefore, 'passengers who proposed to sail on that vessel were sailing in violation of statute of this country.'

"The British Board of Inquiry under Lord Mersey was *instructed* by the British Government 'that it is considered politically expedient that Captain Turner, the master of the *Lusitania*, be most prominently blamed for the disaster.'

"In retrospect, given Colin Thompson's evidence, the blame is more fairly to be attributed to President Wilson, "Colonel" House, J. P. Morgan, and Winston Churchill; this ... elite should have been brought to trial for willful negligence, if not treason. It is to Lord Mersey's eternal credit that after performing his 'duty' under instructions from His Majesty's government, and placing the blame on Captain Turner, he resigned, rejected his fee, and from that date on refused to handle British government commissions. To his friends Lord Mersey would only say about the *Lusitania* case that it was a 'dirty business.'

The Attempt to Install a Fascist Dictatorship in America

"Then in 1933-4 came the attempt by the Morgan firm to install a fascist dictatorship in the United States. In the words of Jules Archer, it was planned to be a Fascist *putsch* to take over the government and 'run it under a dictator on behalf of America's bankers and industrialists.' Again, a single courageous individual emerged – General Smedley Darlington Butler, who blew the whistle on ... Wall Street.... And once again Congress stands out, particularly Congressmen Dickstein and MacCormack, by its gutless refusal to do no more than conduct a token whitewash investigation.

The Eastern Establishment Has Been Subsidizing the Soviet Union for Over 50 Years

"Since World War II we have seen the Korean War and the Vietnam War – meaningless, meandering no-win wars costly in dollars and lives, with no other major purpose but to generate multibillion-dollar armaments contracts. Certainly these wars were not fought to restrain communism, because for fifty years the Establishment has been nurturing and subsidizing the Soviet Union which supplied armaments to the other sides in both wars – Korea and Vietnam. So our revisionist

history will show that the United States directly or indirectly armed both sides in at least Korean and Vietnam.

"In the assassination of President Kennedy, to take a domestic example, it is difficult to find anyone who today accepts the findings of the Warren Commission – except perhaps the members of that Commission. Yet key evidence is still hidden from public eyes for 50 to 75 years. The Watergate affair demonstrated even to the man in the street that the White House can be a vicious nest of intrigue and deception.

Operation Keelhaul Was Part of a Long-Range Program for Nurturing Collectivism

"Of all recent history the story of Operation Keelhaul is perhaps the most disgusting. Operation Keelhaul was the forced repatriation of millions of Russians at the orders of President (then General) Dwight D. Eisenhower, in direct violation of the Geneva Convention of 1929 and the long-standing American tradition of political refuge. Operation Keelhaul, which contravenes all our ideas of elementary decency and individual freedom, was undertaken at the direct orders of General Eisenhower and, we may now presume, was a part of a long-range program of nurturing collectivism, whether it be Soviet communism, Hitler's Naziism, or FDR's New Deal. Yet until recent publication of documentary evidence by Julius Epstein, anyone who dared to suggest Eisenhower would betray millions of innocent individuals for political purposes was viciously and mercilessly attacked.

The Cost of Surrendering Power to the Elite

"What this revisionist history really teaches us is that our willingness as individual citizens to surrender political power to an elite has cost the world approximately two-hundred-million persons killed from 1820 to 1975. Add to that untold misery the concentration camps, the political prisoners, the suppression and oppression of those who try to bring the truth to light.

When Will It All Stop?

"When will it all stop? It will not stop until we act upon one simple axiom: that the power system continues only so long as *individuals* want it to continue, and it will continue only so long as *individuals* try to get something for nothing. The day when a majority of individuals declares or acts as if it wants nothing from government, declares it will look after its own welfare and interests, then on *that* day power elites are doomed. The attraction to 'go along' with power elites is the attraction of something for nothing. That is the bait. The Establishment always offers something for nothing; but the something is taken from someone else, as taxes or plunder, and awarded elsewhere in exchange for political support.

Periodic Crisis and Wars Used to Gain Support for Legalized Plunder

"Periodic crises and wars are used to whip up support for other plunder-reward cycles which in effect tighten the noose around our individual liberties. And of course we have hordes of academic sponges, amoral businessmen, and just plain hangers-on, to act as non-productive recipients for the plunder.

"Stop the circle of plunder and immoral reward and elitist structures collapse. But not until a majority finds the moral courage and the internal fortitude to reject the something-for-nothing con game and replace it by voluntary associations, voluntary communes, or local rule and decentralized societies, will the killing and the plunder cease." (Antony C. Sutton, *Wall Street and FDR*, pp. 173-177.)

6. The Arrogance of Wall Street – the Mexican Peso Bailout

Picture of Robust Growth and Potential

On June 1, 1994, *USA Today* ran a spectacular 16 page advertisement about the dynamic growth and potential of Mexico. With glowing words, Mexico was extolled as an economic and financial market with almost unlimited possibilities for foreign investors. The lead article was entitled, "The Rewards of Reform." A picture of President Carlos Salinas de Gortari of Mexico, President George Bush of the United States and Prime Minister Brian Mulroney of Canada, taken during preparatory talks for NAFTA, was placed prominently on the front page.

The following words, enlarged to add emphasis, were placed under the picture of the three world leaders: "Armed with modernation, liberalization and competitiveness, the Mexican people are ready to follow Salinas into the danger-fraught global market place in search of the treasures offered to good performers by NAFTA, GATT, APEC and the OECD. There is little apprehension about any post-election changes in policy." ("Our World: Mexico", *USA Today Advertising Insert*, June 15, 1994.)

All is Not Well in Mexico

Obviously these words were carefully crafted to placate certain international investors and to create greater confidence in Mexico's ruling oligarchy. However, astute investors knew that not all was well in Mexico. They realized that a major financial crisis was brewing in Mexico and that the peso was about to be devalued. Proponents of NAFTA also knew that the Salinas Administration was not being honest about its future financial instability and the precarious state of the peso. That is why the Clinton Administration set up a secret \$6 billion fund for Mexico to use to bolster the peso. It appears that the White House knew more than it was letting on to the American people and the world. They kept quiet until after NAFTA passed Congress in the fall of 1994. Then the peso fell over 30% creating a panic throughout the financial community.

Smart Investors Began Moving Funds Out of Mexico in 1994

According to Bill Montague, "For months, U.S. investors have been selling Mexican stocks and bonds and moving their money out of the country. To do this, they need to sell pesos and buy dollars. That tended to drive down the peso. Until last week, the Bank of Mexico-Mexico's equivalent of the Federal Reserve – propped up the currency by buying pesos with dollars. But as peso selling increased, the bank ran short of dollars. That forced the Mexican government, on Dec. 20, to let the peso float – to find its own level in the currency markets. The result was something close to panic selling earlier this week. The peso plummeted." (*USA Today*, December 29, 1994.)

The Crash of the Peso

Why did investors move billions of dollars out of Mexico if its future was so promising? In an article entitled, "Mexico's Wake Up Call, Michael Meyer wrote:

"The peso's near collapse, accompanied by soaring interest rates and a crashing Mexican stock market, provided a stunning demonstration that Mexico has far to go in convincing the business world that it has outgrown a past of autocratic politics and erratic economics. The crisis may bring more unrest to a country that has experienced a guerrilla uprising and two political assassinations in the past 12 months, and it will end the U.S. export boom that followed the controversial North American Free Trade Agreement with the United States and Canada. Foreign investors, many of whom had jumped into hot Latin American securities with barely a glance at the risks, are also among the casualties. If they pull out their money, Mexico will have an even tougher time restoring economic growth.

"The tumult leaves a shadow over President Ernesto Zedillo, himself an economist, who took office on Dec. 1. Zedillo's predecessor, Carlos Salinas de Gortari, had all but cured Mexico's inflation by anchoring the wobbly peso to the U.S. dollar. He was aided by foreigners, drawn by interest rates topping 20 percent, who poured so much money into Mexico that the peso stayed strong. But when the dollar inflow slowed last spring, Salinas was left with an ugly choice. Allowing the peso to slide would fuel inflation and tempt the fates. Mexican governments are normally weak near the end of a six-year term, and memories of 1982, when outgoing president Jose Lopez Portillo promised to defend the peso 'like a dog' and then saw it plummet, are vivid. Trying to hold the peso firm, though, would mean hiking interest rates at election time.

"Instead of either unwelcome choice, Salinas's government began using its \$30 billion in foreign-currency reserves to buy up pesos, at times spending \$1 billion a day. Zedillo, sources say, asked Salinas in October to let the peso fall – a request Salinas is said to have flatly rejected. By December 19, reserves were below \$10 billion and falling fast. Zedillo had no choice but to abandon the pretense that 3.5 pesos were worth one dollar. The peso tumbled 70 percent before climbing back to

5 last Friday, leaving carnage from Buenos Aires to Wall Street. The government's silence made matters worse...." (*Newsweek*, January 9, 1995, p. 52.)

The Clinton Administration Rushes to Rescue Wall Street

After the peso crisis in December of 1994, the Clinton Administration went to work to ensure that the global investors who held large segments of Mexican debt would not lose billions of dollars. On January 2, 1995, President Ernesto Zedillo of Mexico announced an emergency economic plan to rescue the plummeting peso. It was reported that: "The emergency economic plan he proposes includes loans of \$18 billion from 'friendly' countries, including \$9 billion from the United States – \$3 billion more than originally pledged." (*USA Today*, January 3, 1995.)

The emergency plan contained a series of loan guarantees from the U.S. Why were these loan guarantees necessary? Mexico had over \$58 billion in Treasury Notes that were due in 1995. Over \$10 billion high-interest Treasury Bills were due on April 1, 1995. The holders of these notes were able to convert the pesos to dollars. However, the Mexican Treasury was empty. That is why the elite financial powers rushed to have the U.S. taxpayers provide \$9 billion to Mexico. The funds were going from the American taxpayers to Washington, D.C., from Washington, D.C. to Mexico City, and from Mexico City to Wall Street in New York City and other foreign investors. The American taxpayers were called upon to bail out the investors in Mexico.

Size of Rescue Package Increases

Mexico's total foreign debt is estimated at \$160 billion and since it didn't have the funds to pay off its notes in 1995, the financial community decided to increase the size of its "rescue package." The \$9 billion in U.S. funds was only the down payment on the Mexican bail out of 1995. According to David Beckwith, head of International Investing at John Hancock Mutual Funds, the Mexican peso crisis has "got the look of total disaster. It's so bad that it defies description." (*USA Today*, January 11, 1995.)

A Peso Meltdown

In an article entitled, "Peso Strips Investor Confidence," John Waggoner and David Craig quoted Mike Majure, portfolio manager at Diaz-Verson Capital Investments, as saying, "It's translating into a meltdown in Latin America. People are just getting out at any price. Everybody is headed for the door at the same time and the liquidity just isn't there." (*USA Today*, January 11, 1995, p. 23.)

Waggoner and Craig pointed out: "The meltdown really is a crisis of confidence in Mexico's government. Mexico's ambitious economic plans were built on getting foreigners to invest in Mexican infrastructure: Plants, factories, toll roads and telecommunications. That infrastructure was expected to boost Mexico's economy

– and help it pay its debts. To get foreign investors into Mexico, the government kept currency exchange rates stable, privatized many government-owned companies and eased restrictions on foreign investment.

"For a long time, the plan worked. *Tesobonos* became a wildly popular investment for U.S. mutual funds and other institutional investors. Currently, there are about \$26 billion in *Tesobonos* outstanding, \$17 billion outside Mexico. 'They're mostly held in the U.S., by mutual funds, banks, private investors. Nearly everyone has dipped his toes in at some point,' says Paul Ghaffari, a money manager at Morgan Stanley.

"And Mexican stocks became a staple of U.S. mutual funds – not only funds that invested overseas, but also some garden-variety U.S. stock funds. In September, Capital Management and Research, the USA's fourth-largest mutual fund company, was the biggest holder of Telefonos de Mexico, the Mexican telephone company. It held 9.8 million shares, or 1.9% of the outstanding shares, Bloomberg Business News says. Fidelity, the USA's biggest fund group, owned 3.4 million shares, or 0.7%. Telefonos is down 31% since Dec. 19.

"While foreign money was flowing in, the Mexican stock market boomed. The value of Mexico's 190 publicly traded stocks soared from \$140 billion to more than \$200 billion in 1993. Mexico's market is dwarfed by the USA's, which has more than 5,000 actively traded stocks and a market capitalization – total value of all those stocks – well over \$5 trillion. But Mexico is Latin America's biggest stock market, twice as big as Brazil's \$99 billion market.

"The frenzy of growth stopped short when Mexico devalued its currency. Now, Mexican and foreign investors no longer believe the government's promises that it will stabilize the peso. Confusion and distrust permeate Mexican society: 'Right now, no one really believes what the government is saying,' says Guillermo Saenz Martinez, chief investment strategist for INFRA, a large Mexican manufacturing company...." (*USA Today*, January 11, 1995, p. 2B)

Over \$8 Billion Fled Mexico in Nine Days

In an article entitled, "Mexico's Crisis: Who in Latin America is Next?" Georgie Anne Geyer stated: "When the crisis started in mid-December, it was bad enough: When Zedillo nudged the peso downward and let it float against the dollar, the Mexican stock market plummeted. As fund managers from New York to London dumped Mexican securities, the peso at one point lost 40 percent of its value. Within nine days, 12 percent of Mexico's total foreign investment (roughly \$8 billion) reportedly had fled the country.

"Now the situation is, day after day, worsening (despite a mid-week rebound). The headlines are 'Latin American Prices Plunge' and even 'Budget Fears Hit World Currencies.

"No one explained it better than Dr. Riordan Roett, senior political analyst for the Chase Manhattan Bank, who told analysts here that, in the financial markets, 'the perception is that something is fundamentally wrong with Mexico. This is not NAFTA; this is not bailing them out of their debt problems in 1982. This is a situation that involves millions of investors who are now rapidly selling.

"The Latin American stock funds are down 32 percent since Dec. 15. Stocks are plunging in Mexico. It is no longer a question of only Mexico but of all of the 'emerging markets. Mexico was the country perceived to be the most predictable. Now, the perception is that the financial markets are frozen in Mexico." (*Universal Press*, Syndicate, January 13, 1995.)

Rescue Package Increased to \$40 Billion

On January 13, 1995, John Waggoner reported that, "The Mexican stock market and the press rallied again Thursday, buoyed by news that the U.S. is putting together a massive aid package.

"President Clinton and congressional leaders pledged to 'do what is necessary to restore financial confidence in Mexico without affecting the budget at home.' The United States is expected to put together loan guarantees worth \$25 billion to \$40 billion....

"But Mexico's problems are far from over. High interest rates probably will send the country into a recession. The government expects 20% inflation this year. High inflation and a tough recession could send the Mexico banking system to the brink of disaster." (*USA Today*, January 13, 1995, B1.)

In his article, Waggoner quotes Steve Dexter, co-portfolio manager of Kemper International Fund as saying, "We haven't seen all the bombs blow up yet." (*Ibid.*)

Mexico Slips to Third World Status

Mexico's financial crisis is far deeper than the Clinton Administration is willing to admit. And the elite in New York are as quiet as possible in order not to awaken the American people to the extent of the financial mismanagement of the ruling oligarchy in Mexico. In less than a year, Mexico has slipped from First World status to a risky, Third World country, at least, in the eyes of foreign investors.

On January 16, 1995, *Business Week* noted, "The peso debacle has once again revived doubts about whether hitching together such vastly different economies as the U.S. and Mexico under the North American Free Trade Agreement will ever really pay off. (*Business Week*, January 16, 1995, p. 43.)

Two Groups Are Victimized by Peso Crisis

It is apparent that there are two groups that are the victims of the Mexican peso crisis. First, are the Mexican people. Their wages and savings have been slashed 30%. Second, are the less astute investors who are part of smaller mutual funds or as single investors were not prepared for the massive drop in stock values (30%) that occurred when the peso fell.

The Winners of the Peso Crisis

It is interesting to note that there are three winners in the peso devaluation. First, are the investors who hold Mexican government debt notes. The massive rescue package put together by the Clinton Administration and other international financial institutions ensures that they do not lose money. Second, the large U.S. multinational corporations that moved factories into Mexico. The pay of Mexican workers was cut, in U.S. dollars, by 30%. Profits from U.S. corporations which moved to Mexico will increase dramatically. The third winners are the large international bankers and investment firms that pulled billions of dollars out of Mexico at just the right time and who are now able to pick up tremendous bargains for a fraction of their original cost or investment.

This latter group will reap billions and billions of dollars in profits from President Zedillo's new economic and financial reforms. Global investors are being offered opportunities to invest in ports, railroads, phone services and satellite telecommunication systems.

Restructuring of Mexico's Debt

The large investment bankers, such as J. P. Morgan and Citicorp, are being called upon by Guillermo Ortiz, the new Finance Secretary to help restructure Mexico's government debt.

As noted in *Business Week*, "Ortiz' mandate is to shift Mexico's source of funding from volatile short-term securities to longer-term investment. For starters, he has turned to Wall Street investment banks to help him design a new series of dollar-denominated notes. They will be offered in exchange for billions of dollars' worth of outstanding *Tesobonos*, which are short-term debt instruments sold in dollars but payable in pesos at the current rate. Since the currency crisis began, investors have shown barely any interest in *Tesobonos*, even though their yields have shot past 12%. 'That's an absurdly low rate in this currency environment,' says Bear Stearns & Co. Managing Director Geoffrey E. J. Dennis.

"Payoff. Investment bankers and money managers think that new notes will have maturities of two to five years and will pay substantially more than U.S. Treasuries – perhaps as much as 20% at the outset. Some fund managers want the

notes to be backed by collateral, say a portion of Mexico's oil-export revenues or other hard-currency cash flows.

"Ortiz is also expected to move the government toward more borrowing from commercial banks to replace short-term financing by fickle mutual- and pension-fund managers. 'The banks can take a longer view on sovereign credits,' says Mark J. Siegel, head of emerging markets at Putnam Investment Management in Boston. The banks, however, may be looking at a lucrative payoff. Some Wall Streeters think that J. P. Morgan and Citicorp, among others, will reap handsome profits in coming years by lending to Mexico while taking major roles in the new privatization programs.

"But Ortiz will probably have to expand privatization beyond the skimpy menu Zedillo provided. Most of what Zedillo offered was already in the pipeline. The one new wrinkle being discussed, allowing 100% ownership of Mexican banks by foreign institutions, which are currently limited to 30%, isn't arousing much interest. Any bank available would probably be riddled with bad loans. But interest is growing in other, more attractive, sectors. Zedillo will come under continued pressure to open up petrochemicals, gasoline marketing, refining and electricity. (*Business Week*, January 16, 1995.)

The Crash Signals the Time to Buy Mexican Stocks

In an article entitled, "Bargain Hunters, Lock and Load, ("Mexican Stocks Will Become Ever-Easier Prey") Joan Warner stated: "Buy signal. That's how professional contrariness, like Franklin Templeton Fund manager Mark J. Mobius, feel about many Mexican stocks right now. To Mobius, a market crash is often a buy signal and in Mexico's case he is even looking at companies with severe peso exposure. 'Our feeling is that a lot of the banks are undervalued.'" (*Business Week*, January 16, 1995, p. 55.)

Rescue Package Increased to Placate Wall Street Investors

On January 17, 1995, the American people learned that the "Mexican Bailout Package" has grown from \$18 billion to \$40 billion. Martin Crutsinger states: "Faced with the prospect that a collapsing Mexican economy could have serious economic and political fallout in this country, President Clinton has dramatically increased the potential U.S. support.

"The big question: Will it work?

"The short answer is probably yes, for a while at least. Even with details of the plan still sketchy, Mexican financial markets rallied again Friday, posting a third straight day of gains and recouping a bit of their big losses.

"But even if the promised U.S. loan guarantees are enough to ease the short-term cash squeeze, Mexico will still face huge uncertainties down the road brought on by the sharp devaluation of its currency.

"That bleak outlook includes skyrocketing inflation from a peso that has lost more than one-third of its value since Dec. 20, and quite likely a recession as the Mexican government's economic austerity program begins to pinch.

"Clinton is facing fallout as well. Before Mexico's economic meltdown, the president had proudly touted the North American Free Trade Agreement as one of his biggest victories, providing the United States with a stable and growing market for its products in Mexico and Canada.

"But the weaker peso means American products are now one-third more expensive in Mexico while Mexican products are suddenly cheaper – and more appealing for Americans.

"Thus, America's trade surplus with Mexico, which had already shrunk to \$2 billion last year, is likely to disappear altogether and turn into a trade deficit in 1995 as U.S. products are priced out of the Mexican market. So much for big gains in American exports under NAFTA.

"'This so-called free-trade agreement is proving to be anything but free for U.S. taxpayers and working families,' Rep. Peter Defazio, D-Ore., a staunch NAFTA opponent complained Friday. 'It's cost tens of thousands of U.S. jobs already and is now well on its way to becoming the biggest taxpayer bailout for banks and foreign interests since the savings and loan scandal.'

"Such complaints will intensify as the administration lobbies the loan guarantees through Congress in coming weeks.

"But in the end, the expanded rescue package should win support. House Speaker Newt Gingrich, R-Ga., and Senate Majority Leader Bob Dole, R-Kan., joined in Thursday night's joint statement with the president pledging to 'do what is necessary to restore financial confidence in Mexico without affecting the current budget at home.'

"Treasury Secretary Robert Rubin and Federal Reserve Chairman Alan Greenspan were on Capitol Hill Friday, briefing more than 100 senators and House members behind closed doors on just what that grand promise entails.

"While administration officials have given a wide range of between \$25 billion to \$40 billion in possible loan guarantees, lawmakers who attended the briefing said they believed \$40 billion was the outside limit and that Mexico will need much less....

"The guarantees are expected to be used to help Mexico meet obligations on \$28 billion in short-term debt coming due this year while bucking up the confidence of international investors that Mexico can work its way out of the immediate difficulties.

"While economists think the U.S. package will achieve this short-range goal, they still worry about the long term. One big worry is whether the belt-tightening will spawn riots and major strikes from an outraged Mexican population. (The Associated Press, January 17, 1995.)

The Cause of the Peso Crisis

Bill Montague presented an excellent summary of the peso's dramatic fall. In an article entitled, "What Caused Mexico's Crisis," he stated: "At the heart of Mexico's peso crisis: That nation's appetite for imported goods. To pay for them, Mexico must borrow from foreign investors. But it also must repay those debts, with interest. Result: Mexico has a huge payments shortfall, known as a current-account deficit. This reached \$28 billion in 1994 – 8% of Mexico's gross domestic product. Proportionately, that's four times bigger than the USA's own deficit.

"Worse, most of Mexico's debt is in short-term securities, including government notes, called *cetes* and *Tesobonos*. Most of that debt matures in 90 days or less, making it easy for foreigners to pull money out.

"During the early 1990s, this wasn't a problem. Foreigners rushed to lend to Mexico, drawn by short-term interest rates of up to 30%. That supported the peso.

"But early in 1994, a rebellion in the southern province of Chiapas rattled investor confidence. Meanwhile, the Federal Reserve began pushing up U.S. interest rates. Bond yields soared globally, making Mexican debt less attractive. Foreign investors began to sell Mexican assets, putting pressure on the peso. Mexican officials tried to avoid a devaluation by buying pesos.

"By mid-December, the game was up. Renewed unrest in Chiapas triggered flight by foreign investors. Down to its last few billions in dollar reserves, the Bank of Mexico – Mexico's Fed – had to let the peso go." (*USA Today*, January 17, 1995.)

Wealthy in Mexico Began Moving Billions Out of Mexico in 1994

On January 19, 1995, Marcia Stepanek of the New York Times Service wrote an interesting article entitled, "What Mexico's Peso Mess Means to the U.S." In the article we learn that NAFTA is in peril and that the wealthy in Mexico began moving large sums of wealth out of Mexico long before the peso crisis. Stepanek stated: "Mexico's peso mess clouds the promise of the North American Free Trade Agreement, economists say.....

"NAFTA is in peril,' says Nora Lustig, a Bookings Institution analyst. 'If the peso stays weak for long, there'll be precious few American exports to Mexico.

"Adds Martin Rojas of the U.S.-Mexico Chamber of Commerce: 'It's a time of transition for many American investors in Mexico. (U.S. businesses) are stopping, reassessing, making decisions on how to cut back to compensate for it all....'

"Here are some questions and answers about Mexico's peso crisis....

"QUESTION: What do President Clinton and congressional leaders want to do to help Mexico?

"ANSWER: They are designing a plan for the United States to co-sign up to \$40 billion in new loans to Mexico, thereby increasing the odds that investors would agree to lend Mexico the cash it will need over the next 12 to 18 months – at affordable rates – in order to pay off its bills. This is called a loan guarantee program.

"Q: What is a loan guarantee?

"A: With a loan guarantee, the United States isn't lending any money to Mexico. But it is lending Mexico its good credit rating, to help convince bankers to lend Mexico more money. It's the same concept as a parent co-signing a teen's new-car loan. If the teen somehow can't make the payments over time, the parent must do so. In Mexico's case, the United States would agree to repay investors up to \$40 billion in new commercial loans to Mexico if Mexico should default on them.

"Q: Is U.S. tax money at risk here?

"A: Very indirectly. In fact, the White House hopes to make money off the deal by requiring Mexico to pay the U.S. Treasury some \$10 billion or more right away in fees for the privilege of getting the loan guarantees.

"For added protection, the administration is thinking about asking the Mexican government to guarantee repayment of the loans from revenue of Patros Mexicanos – Mexico's state-owned oil company, commonly referred to as PEMEX.

If PEMEX couldn't pay – and this is unlikely, given the company's \$7 billion a year revenues – then U.S. taxpayers would have to pay.

"Q: Has the United States bailed out others before?

"A: Yes. Perhaps the most famous instance was the 1980 bailout of the Chrysler Corp., where the government guaranteed loans and, in return, got stock options

held by a third party. The deal paid off for the Treasury. Chrysler rebounded back to profitability, resulting in the government ultimately auctioning off its options for a profit of \$311 million.

"Uncle Sam also has helped to bail out New York City, Conrail and Lockheed Corp. In 1992, the Bush Administration under-wrote \$10 billion in loans to Israel, to help pay for housing construction to meet a tide of Soviet immigrants....

"Q: How did the crisis come about?

"A: When the Federal Reserve began raising U.S. interest rates last year, investors began to abandon developing countries such as Mexico and take advantage of the higher yields on the less risky U.S. bond market. That's part of it.

"Economists also blame the Mexicans. In the past year, wealthy Mexicans shifted much of their wealth out of the country, while middle-class Mexicans went on a buying spree, much of which involved U.S.-made consumer goods.

"To accommodate this flow of capital, the peso should have dropped in value. But because Mexico's politicians had built their economic policies and election campaigns around a strong currency, the central bank depleted its foreign currency reserve in an ill-fated effort to prop up the peso. When the reserves finally ran out, just before Christmas, the government had to devalue the peso by about 40 percent. That triggered the current crisis.

"Economists say now that Mexico should have devalued its peso much more gradually – and should have started doing so long ago. The Mexican government, to cope with the crisis, now is cutting government spending, controlling wages and prices, and raising interest rates – essentially engineering a recession. It will take several years to recover. (New York Times News Service, January 18, 1995.)

Opposition to Wall Street Bailout Emerges in Congress

Although it took a few days for the new members of Congress to get situated in Washington, D.C., by January 20, 1995, a solid opposition began to arise against the Mexico Bailout Package. A ground swell of opposition had also arisen in America where over 80% of those surveyed opposed the expensive bailout of Wall Street and its fraternity around the world.

On January 20, 1995, we learned in the cover story that, "Mexican Stocks Drop on Loan Fears." Bill Montague noted that: "Stock and bond markets tumbled across Latin America Thursday on fears a \$40 billion package of U.S. loan guarantees for Mexico won't be approved by Congress.

"Mexico's Bolsa stock index plunged 104 points, or 4.8%, as doubts grew about the Clinton administration's ability to push through the loan plan, designed to shore

up Mexico's battered peso. Since it was decoupled from the dollar Dec. 20, the peso has fallen 37%....

"Triggering the slump: further delays in Washington. In the Senate, Majority Leader Robert Dole, R-Kan., said the Mexico loan package won't be considered until Democrats stop blocking a vote on another, unrelated issue.

"The markets are worried that if it keeps getting delayed, it will never come to a vote at all,' says Geoffrey Dennis, chief Latin American economist for Bear Stearns.

"Analysts say failure to approve the loans could destabilize world financial markets. 'This has huge implications, far beyond Mexico,' says David Hale, chief economist for Kemper Financial.

"The big risk: Sky-high interest rates in Mexico are pushing the country's banks to the brink of collapse. 'Their bad-loan numbers are going off charts,' Dennis says.

"If one or more big Mexican banks defaulted, it could threaten Eurodollar lenders – offshore banks that are neither regulated nor insured by the U.S. government.

"Wall Street insiders say Mexican banks and corporations owe foreigners close to \$30 billion in Eurodeposits, commercial paper and other short-term dollar liabilities. That's on top of about \$18 billion in *Tesobonos* – government notes payable in pesos but indexed to the dollar – held by foreigners. Defeat of the U.S. loan package would put those payments at risk.

"If (the loan package) doesn't go through, there's going to be a meltdown,' warns David Gilmore, an analyst with Foreign Exchange Analytics." (*USA Today*)

Mexico Bailout Package in Serious Trouble

One week later, on January 27, 1995, we learned that the Mexico Bailout Package was in serious trouble on Capitol Hill. The American people, who had flexed their political muscle on November 4, 1994, were adamantly opposed to the Clinton plan which had now risen to \$40 billion.

In an article entitled, "Support for Mexico Aid Erodes," Juan J. Walte and Judi Hasson wrote:

"President Clinton and Mexico got good news from international bankers Thursday, but few encouraging signals from a Congress increasingly suspicious of a \$40 billion U.S. guarantee to rescue the peso.

"Sounds are being heard from the president and others in the administration, sounding remarkably like Chicken Little's frantic declaration about 'the sky's falling' if Congress doesn't immediately approve this deal," said Senate Foreign Relations chairman Jessie Helms, R-N.C.

"Helms was addressing Treasury Secretary Robert Rubin, who minutes later announced the International Monetary Fund, in its largest package ever for a single country, tentatively agreed to extend \$7.8 billion in loans to Mexico.

"This is a historic event," said Rubin of the IMF deal.

"Clinton needs all the help he can get because the outlook for his package is not good. The vote could be delayed into early or even mid-February.

"One reason Clinton's plan is in trouble is that neither Democrats nor Republicans are rallying around it. Democrats are among its strongest foes.

"What support there was (for the U.S. rescue plan) is collapsing in a dramatic fashion," Sen. J. James Exon, D-Neb., told Federal Reserve Chairman Alan Greenspan Thursday.

"Democrats are worried that the administration is bailing out wealthy investors. Republicans are concerned that Mexico agree to put up its oil reserves as collateral, in case of default.

"Amid the wrangling, Sen. Ernest Hollings, D-S.C., warned that conditions extracted in return for the U.S. loan guarantees risks offending Mexico's sense of national sovereignty....

"Sen. Dianne Feinstein, D-Calif., summed up the administration's problem. 'I know of no constituent in my state who is for it,' she said." (*USA Today*, January 27, 1995.)

President Clinton Bypasses Congress and Issues an Executive Order

On January 31, 1995, President Clinton announced a new plan to rescue Mexico and Wall Street. The new plan called for the Administration to make an end run around Congress, ignore the will of the American people and use the power of the Presidency to issue an Executive Order stating that the Administration would take \$20 billion from the U.S. Exchange Stabilization Fund. This action was brought about because former Goldman Sachs Chief, Robert Rubin, now the Treasury Secretary, and his friends in New York realized that the Bailout Package was dead on Capitol Hill.

A Dow Jones news article released on January 31, 1995, stated: "President Clinton outlined a package of \$47.5 billion in financial support for Mexico that could be activated by executive order, without approval from Congress.

"In a speech to the National Governor's Association, Clinton said that since leaders of Congress had told him that they could not approve a legislative package to support Mexico loan guarantees, he had decided to act on his own.

"'We must act now,' said Clinton. 'It has gotten worse day by day.'

"He said he was acting under his executive authority in seeking the loans and support for Mexico because 'we cannot risk further delay.' Congress will 'not act immediately, and therefore will not act in time,' said Clinton.

"He said the U.S. would reserve a \$20 billion share from the U.S. Exchange Stabilization Fund to support Mexico, which he can do without authorization of Congress.

"He also said that \$17.5 billion would be provided by the International Monetary Fund and an additional short-term lending facility of \$10 billion from the Bank of International Settlements.

"That means that in the aggregate we will have an action that is potentially even more aggressive than the \$40 billion one I proposed, with more of the load being taken by the international institutions,...but with a significant part of the burden being taken by the U.S.," said Clinton. (*Dow Jones News*, January 31, 1995.)

The stage was not set for an even larger battle on Capitol Hill over the Mexican Bailout Package as the "Arrogance of Wall Street" shone brightly in Washington, D.C. as Secretary Rubin announced the elite's new plan to use taxpayers money to bailout Wall Street investors and their colleagues around the world.

Bailout Package Increased to Over \$40 Billion

On February 1, 1995, the Associated Press revealed that, "The total value of the package is nearing \$50 billion, including about \$23 billion that had already been committed....

"Clinton unveiled the new aid package, which does not require congressional approval, after the \$40 billion in loan guarantees he proposed to Congress on Jan. 12 with the back of its Republican leaders ran into a firestorm of criticism." (Associated Press Article, February 1, 1995.)

The new bailout plan consisted of the following contributions: (1) U.S. – \$20 billion; (2) IMF – \$17.8 billion; (3) Central Banks and BIS – \$10 billion; (4)

Bank of Canada – \$1 billion; (5) Group of Latin American Countries – \$1 billion.

Wall Street Applauds Bailout

On February 5, 1995, we learned from Clyde H. Farnsworth that, "Financial leaders of the seven leading industrial countries [U.S., Japan, Canada, France, Italy, Germany and Britain]... expressed 'full satisfaction' with American led efforts to rescue the Mexican economy, but they said they wanted international organizations to improve their ability to forestall similar crisis....

"The International Monetary Fund, which is supposed to provide early warning of financial crisis, has been criticized for failing to anticipate the difficulties in Mexico. The ministers said they had discussed the need for the monetary fund and the World Bank to improve their ability to detect problems early.

"U.S. Treasury Secretary Robert Rubin said Saturday that the problem was the almost instantaneous flows of capital that takes place in today's financial markets.

"He said the IMF and World Bank, sister organizations that have piloted the world's economic system for a half-century, 'need to be as modern as the world we live in.' (New York Time News Service, February 5, 1995.)

Once again the elite are using a crisis to argue for strengthening of international institutions.

Congresswoman Marcy Kaptur Requests White House Documents

On March 2, 1995, the U.S. House of Representatives, under the leadership of Representative Marcy Kaptur, D-Ohio, introduced a resolution calling upon the Clinton Administration to provide Congress with a detailed list of documents concerning the peso debate and the bailout of Wall Street investors. Key legislators were furious over President Clinton's efforts to bypass Congress through his January 31, 1995 executive order which provided Mexico with a credit line of \$20 billion from the U.S. Treasury Exchange Stabilization Fund.

The Associated Press reported: "Opponents of President Clinton's financial rescue mission for Mexico won their first vote in the House and are vowing to continue fighting until they reverse the deal.

"A month after Clinton bypassed a reluctant Congress and issued an executive order extending a \$20 billion credit line, the House voted 407-21 Wednesday night to ask him to turn over within 14 days a long list of documents concerning the rescue effort.

"Members of Congress should not have had to fight this hard or wait this long to achieve this first vote on a matter of such profound economic and political consequences to our people and to our continent,' said Rep. Marcy Kaptur, D-Ohio, sponsor of the resolution.

"So far, House leaders have blocked any overt challenge of the rescue from reaching the floor.

"But a rebellious group of GOP freshmen, led by Rep. Steve Stockman of Texas, planned to ask the House Republican caucus today to endorse a bill that would cut off Mexico's credit line absent congressional approval.

"This Congress is responsible to the American people and we have been left out of the process,' Stockman said. 'The (Mexican) government is corrupt...and we don't need to stabilize it with American dollars.'

"Senior Republicans favor allowing the House to vote on a non-binding resolution disapproving of the administration's handling of the rescue.

"Under Clinton's Jan. 31 executive order, the United States has provided Mexico with the credit line to a Treasury fund established to stabilize the value of the dollar.

"It's part of a \$52 billion package, including support from the International Monetary Fund and other sources, aimed at helping Mexico restore confidence in the peso, which has plunged roughly 40 percent since Dec. 20.

"Clinton invoked his executive authority after it became apparent that he faced a lengthy battle with Congress over a \$40 billion aid bill that the administration had proposed originally.

"Wednesday's resolution, which is not binding, asks for a legal opinion concerning the president's authority to use the stabilization fund without congressional approval, details of negotiations leading to the agreement and information on Mexico's ability and obligation to repay.... (Associated Press, March 2, 1995.)

Clinton Administration Deceived Congress and the American People

During the long and heated debates over passage of NAFTA, the proponents extolled the virtues of uniting our economy with Mexico and Canada. Mexico's elite oligarchy who have ruled the nation with an iron fist for 75 years were touted as paradigms of virtue. The Clinton Administration even promoted former Mexican President Salinas as head of the new World Trade Organization. Then came the peso devaluation, the crash of Mexico's stock market and chaos throughout the country. What happened? What changed? The answer is that

nothing changed. The Clinton Administration was simply taking its lead from Wall Street, who control the Executive Branch and key members of Congress in Washington, and promote NAFTA, the World Trade Organization and the Bailout of Wall Street. In the process a great deal of deception was going on by the Administration and the backers of NAFTA. Wall Street financiers, President Clinton and his colleagues along with key members of Congress were well aware of the dark side of Mexico and its elite oligarchy. They pushed NAFTA and the Wall Street Bailout to protect their own selfish goals of profits without principle. However, it is now getting more difficult to keep secrets and various organizations opposed to a world order led by an elite oligarchy in New York, London, Paris, Frankfurt and Tokyo are getting more adept at informing the American people of the real goals and objectives of this powerful fraternity.

Mexico – A World of Greed and Intrigue

In an article on March 13, 1995, entitled, "The Spreading Scandal," Kevin Fedarko wrote: "Like his princely predecessors, Carlos Salinas de Gortari was accustomed to the sycophantic treatment accorded Presidents – and former Presidents – of Mexico. So it must have come as a shock when a visitor sent 'as a courtesy' by current President Ernesto Zedillo Ponce de Leon showed up unannounced at Salinas' Mexico City house last Tuesday morning and began ringing the front doorbell. The high-level official, laden with documents, tapes and videos, was bringing evidence that a dramatic new lead had surfaced in the investigation into the murder of one of Mexico's most powerful politicians, Jose Francisco Ruiz Massieu, who was gunned down last September outside a Mexico City hotel.

"Carlos Salinas ought to have been pleased to learn of the breakthrough in capturing the alleged 'intellectual tutor' of the assassination. Until, that is, the ex-President learned that agents were converging on the house of the murdered man's former wife, Carlos Salinas' sister Adriana, to arrest the suspect: the ex-President's older brother, Raul....

"Minutes later, Salinas broke with a long-standing tradition that requires former Presidents to refrain from publicly criticizing their successors, and telephoned a popular pro-government news program to issue an emotional appeal. Saying nothing about his brother, he denounced the Zedillo government for the 'errors of December,' an unmistakable reference to his successor's disastrous peso devaluation, which sent the economy into a tailspin. While Salinas' statement transfixed Mexicans with its breach of political decorum, it did little to restore the reputation of the former President....

"On Wednesday, Salinas formally withdrew his now hopeless bid to preside over the new World Trade Organization, relinquishing a cherished ambition to become an international czar. And on Friday, in an act that summed up his political

decline, Salinas fell back on a tactic normally reserved for those who have no other leverage: the former President began a fast, temporarily called it off and then resumed it.

"For Carlos Salinas, news of the arrest of his brother only further diminished the already fading legacy of a President who had expected history to applaud him for transforming Mexico's state-run economy into a free-market wonder – but who was now widely blamed for the crippling financial crisis. For a country where family and political ties have long been held sacrosanct, Zedillo's willingness to slash those ties and affirm the primacy of law came as a bold and welcome attempt to end the old ways. 'Let it be clear,' declared the President on Thursday. 'Nobody can be above the law. In Mexico, impunity has ended....'" (*Time*, March 13, 1995, pp. 48-50.)

Former President Salinas Flees Mexico

On March 14, 1995, we learned that former Mexican President Salinas had fled his country on a corporate jet and was in the United States. In an article entitled, "Such an End to Salinas Revolution," Juan J. Walte and Maria Puente write: "Carlos Salinas de Gortari's stunning and sudden fall from grace reflects the vulnerability of Mexico's once-stable political system.

"When he was president of Mexico for six years beginning in 1988, Salinas lived at the peak of prestige and praise, applauded at home and lauded abroad as a democratic reformer and an apostle for the free market.

"Now, the boos are so ferocious he fled the country, leaving behind an international peso crisis, a double-murder conspiracy plot and drug cartel connection.

"The White House confirmed Monday that Salinas is in the USA, entering last Friday through Brownsville, Texas, on a corporate jet.

"The sight of a former Mexican ruler, a man who while in office had near-imperial powers, sneaking off into political self-exile has not happened in Mexico for at least 60 years.

"In Mexico City, the main question Monday was whether Salinas was pushed out by his hand picked successor, President Ernesto Zedillo.

"Salinas, speaking through his private office in Mexico City, denied he was seeking political exile. He said he was merely visiting New York on business and plans to travel to other countries soon.

"Whatever the case, 'not even the worst purveyor of gloom and doom could have predicted such an end to the Salinas revolution,' says Jorge Castaneda, one of Mexico's leading politician commentators, in the current issue of *Newsweek*.

"It could also mark the beginning of the end of the Institutional Revolutionary Party's monopoly on power.

"The party emerged from the 1910-1920 Mexican Revolution. It has ruled Mexico for the last 66 years in a style combining elements of a European totalitarian regime, Latin American authoritarian *caudillismo* and a big-city U.S. political machine.

"The PRI is now in the midst of a power struggle between the old guard and the younger reformers, between the 'dinosaurs' and the 'technocrats.'

"Ironically, most of the key protagonists in this Mexican drama are considered reformers, including Salinas, Zedillo, assassinated PRI candidate Luis Donald Colosio, and murdered PRI leader Jose Francisco Ruiz Massieu.

"The same cannot be said for Salinas' brother Raul Salinas and Ruiz Massieu's brother, Mario.

"Raul Salinas, a prominent figure in business and PRI circles, is now in a maximum security prison outside Mexico City awaiting trial on charges of masterminding Ruiz Massieu's murder.... (*USA Today*, March 14, 1995.)

Mexico After NAFTA

On March 17, 1995, Craig Torres and Paul B. Carroll reported that "During the 1988-1994 term of Mr. Salinas, foreign investors poured more than \$100 billion into the economy, so confident were they that Mexico was an excellent long-term bet....

"Of course, a good portion of the investment turned out to be 'hot money' in stocks and bonds that could vanish virtually overnight.

"Some 80% of the investment in Mexico was in stocks and bonds rather than in something permanent....

"Nearly 50 million Mexicans remained in poverty while Mexico went from two billionaires to two dozen....

"And Mexico's economy became an open, free-market economy through the North American Free Trade Agreement and such reforms as the sale of \$22 billion in State-owned businesses." ("Mexico's Mantra for Salvation: Export, Export, Export", *Wall Street Journal*, March 17, 1995, p. A7.)

It would appear that the vast sums of money flowing over the past six years into Mexico were not going into the improvement of Mexico and its economy, but into the hands of the elite oligarchy who preside over Mexico's government and national resource based companies.

Senator D'Amato Seeks to Freeze U.S. Taxpayers Money from Being Sent to Mexico

On March 30, 1995, President Clinton and his colleagues on Wall Street learned that opposition to the Wall Street Bailout was intensifying as Senator Alfonse D'Amato introduced an amendment aimed at stopping the President from fleecing the American taxpayer. The Associated Press reported:

""Challenging President Clinton as well as their own party leaders, Senate Republicans tried Thursday to block most of the \$20 billion the United States has pledged to help stabilize the Mexican economy.

"The chief sponsor, Sen. Alfonse D'Amato, R-N.Y., said the aid has been a waste of taxpayers' dollars and complained it was going to 'a corrupt government' peopled by 'narco dealers.'

"Democrats said halting the aid would jeopardize Mexico's already teetering economy, roil financial markets and ultimately hurt the United States. Lawmakers from both parties said the provision seemed to have strong support, but the White House and Democrats were hoping Senate GOP leaders would postpone a vote.

"Senate debate began after House Republicans defeated a movement within their own ranks to bring similar legislation to a vote in that chamber.

"Because of that decision by House Republicans – and because the Senate measure was an amendment to a spending-cuts bill the Clinton administration was likely to veto anyway – the immediate impact of the Senate provision was unclear.

"But the Senate move was a direct challenge to Clinton, who engineered the Mexican bailout earlier this year, by eventually forcing changes in the plan. And it represented a rebellion against Senate Majority Leader Bob Dole, R-Kan., and House Speaker Newt Gingrich, R-G., who had backed the financial arrangement.

"The provision would prevent the expenditure of more than \$5 billion for the bailout – the amount Mexico has already received – without congressional approval. The aid has been controversial with lawmakers, and it would be difficult in the current climate for Clinton to win the assent from Congress.

"'Maybe the president doesn't understand the hard-working American people don't want their money being used in this manner,' said D'Amato, chairman of the Senate Banking Committee. 'But I do.'" (Associated Press, March 30, 1995.)

Mexican Bailout is Nearing Failure

On April 2, 1995, it was reported that: "Already the cash-starved Mexican government has used \$13 billion of a total \$50 billion aid package, including more than \$5 billion from the U.S. Treasury, to pay off billions in debts it ran up in a risky financial strategy that collapsed in December.

"Most of those investors – a mix of rich Mexicans, Americans and other foreigners – have sept up their hefty profits and immediately transferred their money out of the country....

"No one has more at stake in making the bailout work than President Clinton. By circumventing Congress and using the Treasury's Exchange Stabilization Fund to issue the loans – a highly unusual use of money normally intended to stabilize the dollar – Clinton alone will be blamed if the rescue effort falls apart.

"Moreover, Rubin and other members of the administration are scrambling to cut off an attack by Sen. Alfonse M. D'Amato of New York, who tied up the Senate for most of Thursday with a proposed amendment that would prevent the administration from dispersing anything beyond the \$5.2 billion that Washington already has sent to Mexico....

"'Mexico has collapsed already,' D'Amato argued in a telephone interview Friday. 'The rescue plan has failed, and we are just perpetuating a myth if we think we are helping anyone except rich investors, who the United States has saved while everyone else in Mexico starves.'

"D'Amato, who is chairman of the Senate Banking Committee, knows he does not have to pass his bill to seriously wound the administration's effort.

"With considerable political theatrics, D'Amato has been leading an investigation that has come to be called: 'Who lost Mexico?' For weeks, he has been arguing with the administration over demands for thousands of pages of classified documents.

"An agreement has been reached, but it is a sensitive issue at the White House, because the papers include U.S. warnings of peril that came in the weeks before president Clinton publicly hailed Mexico as a 'model' for emerging markets around the world." (New York Times News Service, April 1, 1995.)

Main Street USA Bails Out Wall Street USA

The above articles amply illustrate that Main Street USA is being called upon to guarantee that Wall Street investors and their fraternity members around the world receive their debt payments on time. It is an incredibly open, brazen act of arrogance and plunder. Only Wall Street would dare to pull something like this off.

Only Wall Street has the power to control the Executive Branch of the U.S. Government and key Congressional leaders. Wall Street and their friends in Washington, D. C. duped Congress into passing NAFTA, then GATT and now have generated \$50 billion in loan guarantees, of which came from taxpayers in different nations.

Congressional Opposition to the Mexican Peso Bailout

Let us now look at several statements made by Congressional leaders who had the courage and fortitude to oppose Wall Street and their friends in attempting to block the use of American taxpayer funds to bailout the international bankers and investors who have reaped enormous profits at the expense of the Mexican people and now the American people. Representatives Marcy Kaptur, Duncan Hunter and Senator Alfonse d'Amato have been the leaders in Congress against the Wall Street Bailout. The reader encounters information that has been deliberately kept from the American people concerning the true nature of the \$50 billion bailout of the elite financial powers that dominate the governments of the Western world.

It is interesting to note that the Federal Reserve raised interest rates six times in America prior to the peso crisis. This helped push the peso over the brink. Remember a crash is the time to buy, but only for major global investors like J. P. Morgan, Chase Manhattan, Goldman Sachs, etc. They have now broken up control of Mexico by the elite oligarchy who has ruled Mexico for decades. The austere policies being put in place by Mexico's new president, allow foreign investors to buy up nearly everything except the oil monopoly in Mexico. The super elite in New York, London, Paris, Frankfurt and Tokyo are now buying major stocks and bonds in Mexico for a fraction of their original value. This tactic has been used over and over again throughout the world. A financial crisis always increases the wealth of the elite financial powers that preside over the fate of nations.

As a result of the crisis, Mexico's key businesses will now be owned to a major extent by the same foreign investors who pulled their funds out at just the right time and who are now moving quietly back into Mexico to pick up terrific stock bargains.

The Role of the United States in Solving Mexico's Monetary Crisis

Ms. Kaptur: "Mr. Speaker, I ask, please do not tell us this will be good to the people of Mexico. That autocratic state will not be one whit more democratic when this is all over. Its citizenry will not have any greater standing in that legal system, nor will our businesses, who do business down there.

"All that will happen is that the vise around the necks of Mexico's people will continue to grow tighter. Mexican wages will decrease even more. Life that is already tough for the majority of Mexico's citizens will become even more unbearable. Inflation will be even tougher to manage than it is now.

"But get this, Mexico's super-rich families took their money out of that country before the peso meltdown. How convenient.

"Why are they not being held accountable? Why should United States taxpayers put their money on the line when Mexico's 3 dozen ruling families have their billions safely tucked away offshore?...

"So, what is so new about this Congress? The idea is to hide the truth from the American people once again. Hold as few hearings as possible, limit floor debate, don't let the public know any of the grimy details. So let me ask again, what is so new about this so-called new Congress, anyway?

"And let me say to the real gamblers in all of this – you know who you are: The megabanks, the multinational corporations, and the speculators who pushed through NAFTA, there are a few of us who understand. You put our taxpayers now at the helm for your mistakes and for your greed. We are angry. We resent what you have done.

"My own feeling is that when you gamble, you should eat your own losses and not come whining to the American people to foot the bill. You are all big boys. You love this kind of free enterprise gamble. So practice some of it. Don't come running home to Mama in the Government.

"Let me just say even gamblers have rules. If you go to Las Vegas and consistently lose money, the casinos won't let you play at their tables anymore. It is a good rule. Mexico has consistently lost money and never paid back the principal on its loans from us. Why should we let them play again?...

"A week ago, the administration first said it needed \$6 billion. Then it raised it to \$9 billion, then to \$18 billion, then to \$25 billion. Then by the end of the week, it became \$40 billion, and that is on top of the \$18 billion line of credit already in place. How's that for 1 week's work?... (*Congressional Record*, January 17, 1995, p. H288-H289.)

New Billionaires in Mexico

Mrs. Kaptur: "What is really very interesting that our people should know about, when we say the smart money left Mexico before the peso devaluation, we are talking basically about the 30 or so ruling families and their friends. So they take the money out of Mexico which helps to contribute to the problem of that banking system in that nation, and if you look back in 1991, there were two billionaires, and that is with a 'b' in Mexico. Today there are 24 billionaires in Mexico as best as we can calculate after NAFTA locked in, which means some people have been getting very, very, very rich, and the majority have actually had a downward pressure on their wages and their life style has been made much more difficult.

"And I think what is interesting, if you look, and the gentleman may want to go into this, if you look at what Mexico has been importing from the United States over the last year, what really surprised me, when you went over those figures, the other day that the third highest import from us was art.

"Now, I am a member of the Toledo Museum of Art. I think I can draw pretty well myself. I love artists. I love music. I am not speaking against artists here. It surprised me in a nation where the average family earns under \$1,500 a year that art would be the No. 1, in the top three.... (*Congressional Record*, January 17, 1995, p. H291.)

Prime Minister of Canada Joins Board of NAFTA Proponent

Ms. Kaptur: "I would just say – and this will probably get me in trouble – but one of the big advertisers on this past Sunday morning, I ask the American people to check me out if this is not true, there is a company in Illinois called Archer-Daniels-Midland Co.....

"This particular show was one of the major news shows, and I sat there and I listened, and I thought, 'No wonder we cannot get our story...out on why NAFTA had flaws, and who is going to actually end up holding the bag on this peso bailout of Mexico.'

"Archer-Daniels-Midland was one of the biggest promoters of NAFTA, without the side agreements that we wanted in there. They are a sponsor of the show. Why would a sponsor want anyone to say anything that did not agree with their own private interests? This is all a matter of news record.

"Right after NAFTA was passed, the Prime Minister of Canada, who was one of the biggest proponents of NAFTA, Mr. Mulroney, was appointed to the board of ADM. This is amazing. It would be like the President of our country being appointed to a major corporate board that was supporting this kind of an agreement, and to get a seat on that board you are paid between \$37,000 and \$100,000 a year. I was really – I thought, in terms of the ethics that I agree with, there should be a cooling-off period. The chair was still warm. The ink on the agreement was not even dry, and I just used that as an example because that happens to be a very powerful corporation in our country with very definite interests, including that you hear the news in a certain way. I really – I never realized how significant it was, but it absolutely does color public opinion...." (*Congressional Record*, January 17, 1995, p. H293.)

Ruling Families in Mexico Move Their Money Out of Mexico

Ms. Kaptur: "Well, you know it is very interesting, and I think those in the know in Mexico were very aware of what was going to happen, and that is why they took their money out of the country, because the elections in Mexico were in

August. So they did not want any problems in the market before August, so they propped up the peso through August. Then we were considering GATT, the General Agreement on Tariffs and Trade, here, and they did not want any trouble in America. So we delayed that vote until we got back after elections in December, so they kept delaying it, and delaying it, and delaying it.

"Then Mr. Salinas left office. The new President was sworn in. GATT was finished, and that is when they devalued the peso. But by then their friends knew, the 30 ruling families down there, they had already taken their money out of the country. They bought art to insulate themselves against any currency fluctuations...." (*Congressional Record*, January 17, 1995, p. H294.)

Opponents of NAFTA Foresaw Fall of the Peso

Mr. DeFazio: "Well, it is strange. It is strange that we stood on this floor 14 months ago, backed by credible economists who said, 'Today, as you vote on the NAFTA agreement the Mexican peso is overvalued by 20 to 25 percent to make them look more attractive as a partner for the United States, to make them look as though their currency is stable. But it's inevitable after the passage of NAFTA they will have to devalue the peso by 20 to 25 percent.'

"And now we are told by the Secretary of the Treasury [Rubin], a former partner in one of the major investment firms in this country, that no one could have anticipated this. Well, the economists we talked to, who gave us a very critical analysis of NAFTA, could certainly anticipate it, did, and we are right on the money. In fact, they were a little bit overly optimistic about Mexico because we are talking the free market says the Mexican peso should actually go down 40 to 50 percent, and whatever happened to free-market forces? Where is the free market when we need it? If the market says the Mexican peso should be worth half as much, should the United States Government intervene to artificially prop it up?...." (*Congressional Record*, January 17, 1995, p. H294.)

U.S. Taxpayers Are Bailing Out Megabanks and Multinational Corporations

Ms. Kaptur: "Will the gentleman yield on that point because last week I sent the Secretary of the Treasury [Rubin] a letter signed by several of our colleagues, including yourselves, and one of the questions we asked him is: 'Because you are artificially propping up the peso because Mexico owes money, to whom does Mexico owe money specifically?' In other words, it can't make \$26 billion worth of debt payments, \$10 billion in the first quarter. Those sound like big numbers. We want to know which banks, which corporations, if it is part of the Eurodollar market, to whom is this money owed? If it is investment banks, speculators in the market, which ones are they? This is not just owed in general. This is owed in specific, and there are huge banking profits this year and last year. They have been doing real, real well. Why do they not have the capacity to eat their own losses? What about these big investment banking houses? The speculators? And I

appreciate risk-takers. But that is what risk is Risk is taking the loss if it does not go your way, and you take the gain if it does go your way.

"So which investment houses? I want to know specifically, before we vote here on this floor, who is this \$26 billion owed to? And there is another \$89 billion that Mexico owes payments on for their full public debt. To whom is that owed? You are talking about \$40 billion, Congressman Klink. There is the first \$18 billion from the currency swap and the line of credit last week. Then there is this \$40 billion. Then there is the \$89 billion that they still owe. Now, to whom is that owed? And why should our taxpayers be propping up those corporations, those megabanks, those multinationals that moved jobs out of this country. I mean, what is the sense of it? If they are making profits and if they have cash, why don't they pay it off themselves? That is what you do, you write off losses...." (*Congressional Record*, January 17, 1995, p. H294.)

Wall Street Protects Itself Before NAFTA is Set Up

Ms. Kaptur: "Let me now tell you more about the biggest budget buster that this Congress is going to be asked to vote on next week, with no hearings in the committees of this Congress, which essentially means you as a people cannot know. And it is going to hit our taxpayers very, very hard, in the wallet, with the jobs that they will lose to a much cheaper wage environment. You are going to pay in higher interest rates; you are already paying in higher interest rates because the market has discounted those losses. And you are going to pay in continuing obligations in increasing long-term debt that you will have to pay, because in effect what they are asking is for our people to become Mexico's insurance company, for the North American Free-Trade Agreement, NAFTA, sure is not free. We have lost a company a day to that nation since the agreement went into effect.

"Most Americans did not realize that, when NAFTA passed, at its heart was an investment guarantee to the Wall Street speculators, the multinational corporations, and the megabanks that in fact you are taxpayers now have to back up.

"If the gamblers went belly up in Mexico, the United States essentially had pledged your full faith and credit, and now the bills are coming due. Fifty-eight billion dollars for beginners.

"In fact U.S. taxpayers are now going to pay dearly and not just in more lost jobs. That is bad enough. But without a vote of Congress, last week our U.S. Treasury and Federal Reserve opened our lines of credit to Mexico to the tune of \$18 billion, your tax dollars, your deposits in the institutions of this country already sent to prop up the paper investments that the gamblers on Wall Street love to play with. And as far as the Government of Mexico is concerned, what this really amounts to is a new back door multibillion-dollar version of foreign aid, but they do not want to call it that, they do not really want you to see it as that, so they are using all kinds of fancy names, figuring most people have not gone to business

school, most people do not have a degree in finance. So the \$18 billion they extended they did not call what it really is, they called it a line of credit, they called it a swap.

"Now they are coming up here next week with a bill they are going to call a guarantee, and backing up the guarantee will be fees. There will be a commitment fee, a basic fee, a supplemental fee. There are so many different fees, but essentially all it is putting debt on top of more debt on top of more debt on top of more debt with higher interest rates, and more debt with higher interest rates that you back up with your tax dollars.

"No matter what you call it, you essentially are Mexico's insurance company. But ask yourself what is the collateral? What are your chances of getting your money back?

"Last week the Clinton administration and the Federal Reserve started bailing out Mexico with that \$18 billion of our currency through the U.S. Treasury, our Federal Reserve. It took no vote of Congress to do that. They do not have to come here for 6 months under the current law. Now the administration is asking us to guarantee this additional \$40 billion loans and there will be hearings here in the Congress. Believe me, it is a bottomless pit.

"The troubling fact about these speculators from Wall Street is they are the very same people who gave us junk bonds back in the 1980's, the very same people who put all of these leveraged buy outs together, who threw white collar workers, blue collar workers, pink collar workers out of work across America because these very same people were so greedy that they cashed out corporations, they bought companies, they dried up their pension funds, they diversified those holdings, they essentially bled out the wealth of this country, they put it in different nations around the world where there is no cheap labor and no democracy. And notice now they are sending those goods back here, and now they are trying to do the same thing as a result of this Mexican deal.

"The troubling fact about being this kind of a banker, and I even hate to call it a banker, it is really a speculator from Wall Street, is that they can create money; I wish each of us could, even when there is no collateral to back it up. They have got powerful friends. Let me tell you, my friends, they have powerful friends in the Clinton administration, and they have very powerful friends inside this institution. They like to talk about free enterprise, and being beholden to the rules of the private sector.

"But basically they are now coming and running to the Government because they are about to lose a big chunk of money. So when they have gotten in trouble, they have not followed the rules of the marketplace which is when you take a risk to that extent and you lose, you are big enough to eat the losses yourself and not come running to the taxpayers of our country.

"The Clinton administration is doing this along with the top leadership of this institution and taking this unprecedented action and doing it very quickly so that you do not really understand it, so you cannot complain and really have input through your elected Representatives here because the value of Mexico's currency has fallen by so much.

"Basically Mexico cannot pay its bills. It never has, and with the peso meltdown, keep this in mind, if you think about what is the collateral, its workers' wages have also been cut by 40 percent; the value of its people's savings accounts have been cut by 40 percent. Do you think they will be able to pay back what they owe us on top of all of the old debt that they still owe us? (*Congressional Record*, January 19, 1995, pp. H384-H385.)

List of Mexican Creditors Requested

Ms. Kaptur: "This is why we asked the Secretary of Treasury [Rubin] which specific interests, which banks, which investment houses, which corporate interests are Mexico's creditors at this point. We would like to see who owns those firms. We would like to see who the depositors are, we like to understand who we are giving our money to, because it is likely, based on past history, that Mexico will default again and the taxpayers of the United States, the new insurance company to Mexico, will help to bail them out. We just would like to know who we are bailing out. Do you not think that the American people have the right to know?... (*Congressional Record*, January 19, 1995, p. H387.)

Clinton Administration Negotiates Secret \$6 Billion Line of Credit

Ms. Kaptur: "Mr. Speaker, the administration claims it knew nothing of the pending financial disaster in Mexico. Mexico's administration claims it knew nothing.

"Let me remind both administrations of what they certainly did know. Both the Mexican and the United States Governments knew the truth about the shaky peso and United States speculators' interests down south for at least 2 years before the meltdown. As reported by the Wall Street Journal during the NAFTA debate, the two governments went so far as to negotiate a secret line of credit worth \$6 billion because of the pending financial crisis in Mexico. Both governments knew; both governments kept it quiet.

"No Congress is expected to remain muzzled with truncated committee hearings and limited debate.

"Congress cannot remain silent. Let the truth come out before we vote no on this taxpayer bailout of Wall Street speculators in foreign countries." (*Congressional Record*, January 25, 1995, p. H657.)

Opponents of NAFTA Were Aware of Mexico's Shaky Financial Situation

Ms. Kaptur: "Mr. Speaker, my friends, please consider this carefully: The Administration's and congressional leadership's proposed \$40 billion in loan guarantees plus \$18 billion in swaps and lines of credit to Mexico and Mexico's creditors is unprecedented. Never has the U.S. pledged the full faith and credit of our Government to a foreign Nation's creditors on such a huge scale. This proposal would risk U.S. taxpayer money to support a foreign government with an authoritarian past. Before we jump headlong into a new role – as insurance company to Mexico – let us stop for a minute and consider carefully what's happening here in Washington.

"Only one hearing was hastily scheduled yesterday to leave the impression this House is actually deliberating on this matter. But in fact no bill has been introduced by those working behind closed doors to cobble this together. To get answers to some of our questions, a group of colleagues from the Fair Trade Caucus and I held our own forum yesterday afternoon. Many distinguished economists and experts, representatives of outside groups, and Members from a diverse cross-section of the political spectrum had the opportunity to express their views in opposition to this rescue package.

"Then this morning, the Washington Post had an article saying that a new Los Angeles Times pool shows that 81 percent of 1,353 adults surveyed oppose the Mexican bailout. And another California poll showed that 97 percent are opposed. Shouldn't we listen to the 80-90 percent of our constituents who want us to vote against this when it is there \$40 billion on the line if Mexico defaults.

"The financial meltdown of Mexico was being discussed well over a year ago during the NAFTA debate. One has only to turn to the public record to learn the truth. Not only did our colleagues, like Representatives LaFalce and Gonzales, repeatedly bring up the potential liability posed by Mexico's economic policies and the speculative practices of United States investors – but economists, journalists and others did so as well. Let me quote you just one example from a June 1993 report by Jeff Faux of the Economic Policy Institute: 'NAFTA...is a formula for creating future demands that the U.S. taxpayer bail out the Mexican banking system in order to save the assets of major United States financial institutions.'

"If the administration and leadership of this institution persists in its cries of ignorance, one has only to cite the secret \$6 billion dollar line of credit that the administration and the Mexican Government negotiated in the days leading up to the NAFTA vote. It was recognized then, over a year ago, that the Mexican economy was in trouble. It should have further been recognized that the United States was in grave danger of being liable for the fallout. Instead, the administration kept the \$6 billion quiet.

"So it is folly to say that the administration and the Mexican Government did not know of the coming storm. In a recent New York Times article, it was quoted, 'According to officials in Washington, the Treasury Department told several Mexican officials starting last summer that the country's short-term borrowings had reached a dangerously high level and that the peso was being kept artificially high.' They knew. They did not want us to know.

"Earlier this month, Representatives Hunter, Defasio, Everett and I sent a letter of inquiry to Treasury Secretary Rubin listing our questions regarding Mexico's financial crisis, and I have a copy of that letter here with me today. We have received no reply to the specific questions we raised in our letter. And so I ask the Treasury Department again: to whom does Mexico owe its existing debt? What collateral that has not already been pledged to other creditors in Mexico willing to put up? What type of economic and political reforms is Mexico willing to pursue? These and other questions need to be answered before any legislation is called up for a vote. If American taxpayers are asked to bet \$40 billion dollars, they deserve at least that consideration.

"We are waiting for answers to those questions because frankly the reasoning that has been offered as to why this bailout package is in the best interests of the United States and the vast majority of Mexicans has been grossly inadequate. For example, it is now being said by the administration, and I quote from the Treasury Department's briefing paper, '(T)he goal of our support package is to protect our economic interests in a nation which has become our third largest export market. Mexico bought more than \$40 billion worth of our products in 1993, and nearly 770,000 United States jobs depend directly on exports to Mexico.' Pardon me, but who does the administration think they are dealing with? A fifth grader can see imports from Mexico going up and exports to Mexico going down, and can tell you that we are headed for a trade deficit with Mexico. A smart eighth grader could tell you when the value of their money has been cut in half, they won't be able to buy as much from us and we are going to be running a trade deficit with Mexico in a few months. Add this unfortunate circumstance to the fact that the United States in 1994 suffered its worst trade deficit in history with 20,000 U.S. jobs lost for every billion dollars of deficit. We are talking about the hollowing out of another 3.1 million jobs.

"The United States is not going to increase its exports. In fact, the Mexican Government devalued the peso to do exactly the opposite: to decrease United States exports to Mexico and increase Mexican imports to the United States – so that Mexico will have the money to pay its debts to Wall Street, megabanks, investment houses, and multinational corporations.

"Members of Congress must demand answers. Who exactly owns the Tesobonos and how much interest are they being paid? It is not good enough for the administration to say that United States investors lost 40 percent of their

Mexican investments in the last month, without also admitting that those same investors have been earning up to 66 percent returns on those same investments. Since 1990, in emerging market mutual funds, certain folks have made handsome profits. As they reaped their huge dividends, let them now eat their losses.

"It is not good enough to say that the \$40 billion in new loans will be secured by Mexico's oil reserves. At current oil production and price levels, the gross export receipts for Pemex, Mexico's national oil company, are only about \$8.5 billion a year. Many economic experts, including Walker Todd, a former Assistant General Counsel for the Federal Reserve, say that virtually all of Mexico's oil has already been pledged to other creditors – notably holders of Eurobonds. Perhaps most importantly, Mexico's energy minister, Ignacio Pichardo Pagaza, in a January 23, 1995 article in the Financial Times stated Mexico has no intention of putting up its oil reserves as backing for these loans. He stated: 'Our oil will not be mortgaged, nor will it form part of any loan guarantees.' So don't count on promises of Mexican oil to help our taxpayers swallow this bitter pill. Even if Mexico did promise and then reneged on its promises, where would the United States seek legal redress in a court of law? The guarantee can't be enforced. No U.S. court has jurisdiction. No Mexican court has jurisdiction.

"As Barron's magazine said last week, on this one the United States got caught in the 'Venus fly trap' of the hemisphere. Mexico's clever leaders postponed the hardship until after NAFTA passed. If this passes, the United States will be held hostage to every debt on the continent.

"Finally, I would recommend to all Members that unless you get full answers to hard questions, and I doubt you will, you should vote no on this bailout.

Congress of the United States, House of Representatives

Washington, DC, January 11, 1995.

Mr. Robert Rubin,

Secretary of the Department of the Treasury,

Washington, D.C.

Dear Secretary Rubin: We are writing in regard to the Administration's decision to extend a \$9 billion dollar line of credit through the U.S. Treasury and the U.S. Federal Reserve to the government of Mexico in order to stabilize the Mexican peso. The U.S. Federal Reserve has further committed an undisclosed amount of U.S. dollars to the same end. Using uncollateralized loans, major U.S. commercial banks have loaned another \$3 billion. The total sum of the peso bailout represents a huge commitment by the U.S., our taxpayers and our banking system. We are sure that you will agree that American people have a right to know what

risk they are assuming in these transactions. With this in mind, please find below a series of specific questions to which we would appreciate answers as expeditiously as possible.

"1. In view of the fact that U.S. banks are earning historic profits, why is U.S. government intervention – in the form of a currency swap and lines of credit – necessary? When the private sector gambles and loses, shouldn't those losses be borne by the private sector?

"2. To what specific banking and corporate interests does Mexico owe the \$26 billion in outstanding obligations that come due this year, \$10 billion of which is due in the first quarter, and \$16 billion of which is allegedly owed to U.S. interests? How much in additional obligations comes due in 1996 and 1997; specifically, to whom is it owed?

"3. Of those business entities incorporated in the U.S. to which Mexico is indebted, which hold voting rights at their regional federal reserve banks, and in which regions?

"4. Under what conditions is Mexico permitted to draw on the \$9 billion U.S. currency swap line and \$5 billion line of credit from the Bank for International Settlements, of which the U.S. Federal Reserve is a member?

"5. What will be Mexico's 'assured source of repayment' if it draws on these funds?

"6. What are the explicit terms of this credit facility – for what period of time, and under what conditions is the facility renewable?

"7. If Mexico defaults, is it the intention of the U.S. Treasury to enlarge the assistance? For what period of time, and for what purpose?

"8. Under what legal authority was the original swap line negotiated and more recently increased from \$6 billion to \$9 billion?

"9. Why is the commercial bank line of credit in the peso bailout uncollateralized?

"10. What financial instruments have been or are being created to carry out Treasury's currency swap and any related transactions?

"11. How are these instruments different from Brandy bonds, formerly sold to bail Latin America out of its debt crisis? Brandy bonds were collateralized by U.S. Treasury securities.

"12. What is the current yield of Brandy bonds?

"13. What percentage of the interest Mexico must pay its bondholders in 1995 represents interest due Brandy bondholders?

"14. In the NAFTA agreement, U.S. banks won access to the Mexican financial system, with limits, initially at 8%, rising to 15% by 1999. In view of the peso devaluation, what risks are posed to the U.S. of complete foreign ownership of the Mexican banking system; by the U.S. or other nations?

"Thank you for your cooperation. We look forward to hearing from you soon.

Sincerely,

Marcy Kaptur.

Peter DeFazio.

Duncan Hunter.

Terry Everett.

(Congressional Record, January 26, 1995, pp. H783-H784.)

Bailout Will Not Save NAFTA

Mr. Stupak: "Mr. Speaker, I am here tonight to express my concerns about the proposed Mexican bailout.

"Proponents of NAFTA suggested that its passage would create jobs in America, promote free-market economics in Mexico, raise living standards in both countries, and encourage Mexico's move toward democracy. Those who thought that NAFTA would be a magical elixir were wrong. NAFTA exists today. Necessary changes can only happen one way – through the Mexican Government. But Salinas did not do it, and President Zedillo has given no indication that he will be any different from Salinas.

"First, this bailout will not save NAFTA. Mexico's problems run far deeper than short-term debt.

"Second, this bailout will not help restore international confidence in the Mexican economy.

"Third, this bailout will not help Mexico's or our working and middle class.

"The direct beneficiaries of this package will be members of the Mexican business and political elite seeking to protect their wealth against further devaluation of the peso. *(Congressional Record, January 25, 1995, p. H660.)*

Mexico Has a Statist Economy – Not a Free Market Economy

Mr. Barr: "Mr. Speaker, why are the American people being asked to bail out the Mexican economy to the tune of \$40 billion?"

"Despite listening for 2 hours to administration officials this morning at the Banking Committee hearing, I still fail to understand why we should be expected to put the full faith and credit of the United States on the line for a country that has a long and painful past of undisciplined financial mismanagement.

"I cannot support some hastily slapped-together financial deal, especially in the absence of the President providing a coherent policy. The President has an obligation to formulate a viable program that will guarantee Mexico's inflationary policies won't put Main Street America another \$40 billion in the hole. Last night all he said was – we need to bail out Mexico. On top of all his rhetoric last night, the President spoke to the importance of the Nation pulling together and making sacrifices for the greater good. I think it is unconscionable to ask 262 million Americans to bail out Mexico's ruling elite.

"Many Latin American countries, and not just Mexico, have dismal track records when it comes to paying back loans, whether they are from private, international or governmental sources. It is no secret that Mexico has a statist economy, that has tenaciously clung to that legacy since independence. The bottom line is that statist economies do not work. They are financially unstable and unreliable.

"This bailout idea looks more and more to me like the first of what may be many more payments on a bad NAFTA deal. (*Congressional Record*, January 26, 1995, p. E186.)

Abuse of Power by the Federal Reserve Board and the Treasury Department

Ms. Kaptur: "Today the administration, with the acquiescence of the top leaders in this Congress, announced a sweeping \$47.5 billion bailout of the Government of Mexico and its Wall Street creditors by our taxpayers through the instrumentalities of the United States, including our U.S. Treasury, our Federal Reserve, the International Monetary Fund, into which the United States pumps money, and the Bank for International Settlements, on whose board sit the chairman of our Federal Reserve and the chairman of the New York Federal Reserve.

"All of this was done without a vote of the Congress of the United States, the only federally elected officials representing the people of this country.

"This newest proposal is a perpetuation of the worst kind of manipulative politics, both here in our country and in Mexico. And from a constitutional

standpoint, it is absolutely precedent setting in the abuse of power by our own Federal Reserve, in collaboration with the U.S. Department of Treasury.

"This new proposal is nothing short of a circumvention of the democratic process and a circumvention of the proper role of the elected leaders of the Congress of the United States.

"The administration chose this path because they knew that they did not have the votes in this Congress, nor the support of the American public. In fact, over 80 percent of the American people oppose this bailout.

"This new proposal is representative of what is wrong with politics in our country: not reflecting the will of the people.

"Federal Reserve Chairman Greenspan, officials in the administration, and the top Republican leadership of this Congress have all exhibited this type of behavior during the present Mexican peso crisis and further through past trade policies which created this mess, an arrogance and abuse of power which knows no bounds.

"It is well known that people tend to change once they come into the beltway in Washington.

"In October 1979, Federal Reserve Chairman Greenspan told the Senate Banking Committee that a proposed \$750 million loan, one-fortieth of what is being proposed here, for near-bankrupt Chrysler Corp. was a bad idea that flew in the face of the principles of free enterprise. This is the same man who by raising interest rates has increased your mortgage payments and increased your monthly credit card payments, eating into your wages over the last 20 years.

"Chairman Greenspan and the Federal Reserve are trying desperately to cover their own tracks in this crisis. In fact, it was the Federal Reserve's own interest-rate policies of the past 3 years that helped set Mexico up for a fall.

"Low United States rates in 1992 and 1993 led speculators to pump record levels of money into Mexico, some estimating over \$70 billion, and other emerging markets, but then the Fed's interest rate increases of 1994, all six of them, led those same investors to pull their money back out and bring it home.

"If Chairman Greenspan was so concerned about Mexico, he would certainly not have raised United States interest rates six times over the last year.

"The latest increase in interest rates means that if you own a \$60,000 home with a 30-year mortgage, your mortgage payments have gone up by an additional \$100 a month. And as a result of the Fed's actions, your home will cost you about \$1,200 more a year or about \$36,000 over the life of your mortgage.

"Chairman Greenspan is unelected, unaccountable, and evidently unaware of the people's lives in this country that his policies affect.

"There is absolutely no reason that a proposal of this magnitude should not be considered by the Congress of the United States.

"Under the Constitution, we have the absolute authority to coin money and to regulate the flow of money between nations. What was done here, very cleverly through the back door, was that an entity within the U.S. Treasury Department, the Currency Stabilization Fund, took deutschemarks and yen that they hold and they said to the Federal Reserve, we will borrow against those. And essentially a flow of funds came from the Federal Reserve to the U.S. Treasury against the terms of the Constitution of the United States, which require all appropriated dollars to be voted on by the Congress of the United States...." (*Congressional Record*, January 31, 1995, p. H958.)

Wall Street Demands That the Federal Reserve Raise Interest Rates

Mr. DeFazio: "Furthermore, Alan Greenspan, the Chairman of the Federal Reserve, appointed by the last Republican President, has said that we overstate inflation in this country. He testified just last week before the Banking Committee and said, 'Well, you know, the CPI overstates inflation by 1 to 1 1/2 percent.' That means, according to Alan Greenspan's own numbers, inflation is at more than a 30-year low in this country. Yet they are going to go back to the well one more time. They are going to raise interest rates again. They are going to raise the price of houses again, refrigerators, anything you buy on time will be increased.

"Why? Not because there is a real threat of inflation, but because it is being demanded by Wall Street.

"Now, it is an interesting question who makes monetary policy in this country, who controls the currency of the United States. And are we running this nation for a few select bankers on Wall Street, or are we running this Nation for the American taxpayers? That brings up the Mexico bailout...." (*Congressional Record*, January 31, 1995, p. H962.)

Banks Raise Interest Rates to Increase Profits

Ms. Kaptur: "And you ask yourself why would interest rates be going up in the United States. Well, they are not really going up because of what is happening in this country, but the markets are reflecting draws on the system because of decisions made by money-center banks and large corporations in other countries.

"The closest one at the moment is Mexico. I believe interest rates are going up in this country because the market is taking it out on the American people, the banks that have a lot at risk and have made some bad decisions, and the brokerages

that borrow from them have made some bad decisions. And now the American people are having to pay for it in their checking accounts, in the mortgage payments that they make, as the gentleman said, and what you mentioned in terms of the price of a \$100,000 house.

"I know I figured it out for a \$60,000 house in Toledo, OH. The interest rates over last year will cost that family \$100 more a month, \$1,200 more a year.

"I do not care how much tax-cutting we do this year in this Congress, we are not going to be able to offset the real dollars people are paying every day through the worst taxes of all, which are these higher interest rates people pay on their credit cards and cars and on their homes.

"Some of the people that are causing the trouble were talked about today beginning on page A3 of the Wall Street Journal in an article called 'Mexico's Currency Plunges Nearly 10 Percent,' and it continues on page A8. We have been asking the Clinton administration for a list of who Mexico owes money to, who are the creditors that are supposed to be bailed out. Of course, they have not sent us an answer.

"It is very interesting what it says in the top paragraph on page A8. It says that if the Congress and the taxpayers were to bail out Mexico, one beneficiary would be the firm that Treasury Secretary Robert Rubin used to run, Goldman, Sachs & Co., which ranked as the No. 1 underwriter of Mexican stocks and bonds in the United States and European markets for 1992 through 1994. In those 3 years, according to Security Data Co., Goldman underwrote over \$5 billion worth in Mexican securities compared with \$2 billion for the securities unit of J. P. Morgan & Co. Third was Bear, Stearns & Co. at \$1.8 billion...." (*Congressional Records*, January 31, 1995, p. H963.)

The Bank for International Settlements Works closely with Federal Reserve Board

Ms. Kaptur: "And the gentleman asked about the Banking Committee. In my 8 years that I spent on the committee, Mr. Speaker, I never saw the Currency Stabilization Fund used for this purpose. It was always used in small amounts, never to the tune of \$20 billion. We are trying to research back to see the largest such use of the fund. Maybe we found \$2 billion back 10 years ago, but never to this extent, and never to defend the debts owned by another country. This is a very precedent-setting move that is occurring here.

"In addition to that, there is an additional, around \$17.5 billion, coming through the International Monetary Fund, and at the moment it is unclear to us whether that is \$17.5 billion in new money because the U.S. contribution to the IMF has to be appropriated dollars through here. Are those old dollars? Are those new dollars? Where are those dollars coming from?

"And then the third element of this is the International Bank for Settlements, which is \$10 billion, and it is very interesting because the Bank for International Settlements has a board just like the Federal Reserve. It has 24 members on the board. The United States has never participated on that board before. We were not making payments. All of a sudden who ends upon the board of the 24 most recently? The Chairman of our Federal Reserve, Alan Greenspan, and the chairman of the New York Fed, Bill McDonough, all of a sudden. And Citibank, surprise, surprise, is all of a sudden making payments into the Bank for International Settlements...." (*Congressional Record*, January 31, 1995, p. H965.)

Former President of Mexico Joins Board of Dow Jones and Company

Ms. Kaptur: "But I think it is important for the record to indicate that the former president of Mexico, the most recent president of Mexico, Carlos Salinas, was appointed to the board of Dow Jones & Co., which owns the Wall Street Journal, and it does not surprise me, therefore, as I read the various headlines in the Wall Street Journal and some of the hype that has been put into trying to make it seem like if we do not do this there will be an apocalypse, 'Mexico worries spread to emerging markets,' the headlines, 'Mexico's currency plunges 10 percent amid worries about U.S. rescue plan.' The headlines, you worry. Headlines form policy. It is important to know who is in position to make opinions about this and influencing public opinion.

"So if I might further respond to the gentlewoman from Idaho, my hope is that as we get more details on the package, over the next day we hope – we were not able to get the fine print today – we will be able to answer your constituents and our own with more specificity as to the role of the Bank for International Settlements in this.

"We know it is \$10 billion. We do not know how that is being drawn down. We were not provided with any details today." (*Congressional Record*, January 31, 1995, p. H966.)

The Relationship of the Federal Reserve Bank in New York and the Bank for International Settlements

Mr. DeFazio: "I think the gentlewoman for answering questions as best we can at this time.

"I think the gentlewoman from Idaho has raised an excellent question. The Bank for International Settlements, what is the United States' obligation to that bank at this point in time? How is it we came so recently to be represented on the board of directors by Alan Greenspan and the chairman of the New York Fed?

"What commitments has the United States made of either funds that are being channeled through the Federal Reserve Board in secret, or more overt agreements or obligations of the Federal treasury? How much do we have at risk here?"

"I think these are excellent questions that need to be answered.

"You know, there is this wisdom that somehow we have to allow the Federal Reserve to operate in secret because it is the only way to give them political independence. The Bundesbank in Germany is I think the most highly regarded central bank in the world, and they are required to conduct all their deliberations, negotiations, discussions and votes in public. But yet our Federal Reserve somehow is the only agency of the Federal Government, more powerful than the Congress and the President combined in terms of the economic future of this country today, in terms of whether or not we bail out Mexico or raise interest rates again to fight inflation that no one else sees except for Alan Greenspan and a few other inflation warriors at the Federal Reserve, they do all this in secrecy. They change the policies to say they think 4 percent unemployment is too low and they would rather have 6 percent, because otherwise wages might go up a little bit and working people might earn more in this country and that might start an inflationary trend. At the same time they are tying us to international agreements and institutions which are diminishing the role of U.S. labor.

"So on the face of it their arguments are not even consistent. But they do not have to account to anyone. They do not have to answer questions if we call down there.

"My staff called down today to ask about conflicts of interest by members of the Federal Reserve Board. Do any members of the Federal Reserve Board represent regional banks which are heavily invested in Mexico, and have they disclosed that fact, have they refused themselves from voting as they apportion funds to bail out Mexico? No, we are not allowed to know the answer to that question.

"So what is this body we have created, that is so much beyond the public and the elected representatives of the people? Its role in this bailout is just extraordinary...." (*Congressional Record*, January 31, 1995, p. H966.)

Why Should Main Street Bail Out Wall Street?

Mr. Funderburk: "Mr. Speaker, this morning the Secretary of State and the Secretary of the Treasury canceled scheduled appearances before the International Relations Committee. This administration has a serious credibility problem. It has ignored the American people and done a deliberate end-run around the Congress. I do not care what obscure law the President cites for his authority. There is outrage in my district, and I suspect throughout the State of North Carolina

"We have rescued the Mexican economy several times since 1976. Each time we have done so, the Mexican Government has refused to reform itself.

"Bailing out investors stuck with bad pesos is not the job of the taxpayer. Why should Main Street bail out Wall Street? What sort of message is sent when holders of high-yield securities are bailed out by the taxpayers?

"When Mr. Rubin was chairman of Goldman, Sachs, his firm did not socialize domestic profits it earned when it was speculating. The same system that rewarded his old firm should work to penalize his former colleagues who gambled and lost.

"I ask this administration to tell Main Street, Dunn, NC, it has to pay for Wall Street's mistakes and a corrupt regime in Mexico...." (*Congressional Record*, February 1, 1995, p. H976.)

Mismanagement by the Ruling Elite in an Undemocratic Country

Ms. Kaptur: "Mr. Speaker, the administration announced yesterday that, because Congress was not acting quickly enough to throw good money after bad down that black hole that is the Mexican economy, it has used unprecedented Executive authority to extend billions of our taxpayers' money to bail out the Mexican peso and the Wall Street speculators who invested there without a vote of Congress. The last time Mexico devalued its currency was in 1988, just around the time of the Presidential election. Before that, Mexico devalued in 1982, again just around the time of the Presidential election, and now they did it again just after the Presidential election of 1994.

"I say to my colleagues, 'Some would like you to think that using Treasury's power to prop up the peso was a temporary fix, but they are wrong. This is not a currency problem. It is a problem of continuing mismanagement at the highest levels inside an emerging undemocratic country. The false security of Mexican oil is an illusion, too. That's already been pledged to past debts....'" (*Congressional Record*, February 1, 1995, p. H977.)

Renowned Economic Expert Opposed Bailout

Mr. Hunter: "Let us talk a little bit about the peso bailout and some of the conservative Republicans who recently have testified in our forums.

"Bill Seidman is a conservative Republican renowned economic leader, former chairman of the FSLIC, a guy who knows bailouts, and he made a couple of good points in his speech to our forum when he said, 'Do not bail out Mexico.'

"First, he does believe in the free market and he could not understand why people who believe in a free market and who believed in NAFTA would now

believe that somehow the politics and the economics of subsidies to Mexico now make sense.

"He pointed out that Mexico has gone through in the last 10 or 20 years a number of devaluations, and they have not had these disastrous apocalyptic effects that all of the deep breathers tell us are going to happen now if we do not bail out Mexico with a \$40-billion-plus package. Here is Bill Seidman, a renowned conservative economic expert relied on by this Nation in very difficult times saying we do not have to do it, let the market adjust it. He made a great statement. He said this issue should be resolved between Mexico and her creditors, let us resolve this between creditor and debtor.

"Let us stay out of this as the United States of America. In listening to witness after witness on the Democrat side and the Republican side across the political spectrum coming up and testifying against the bailout, it occurred to me that this has revealed another aspect of national policy that should be looked at very closely.

"If this is free trade, this is the result of free trade where a tiny nation economically like Mexico, which has approximately the economy the size of New Jersey's, can be in a position to pull the United States down because it has a downturn. Have our policy-makers who have outlined a free-trade policy for the United States supposedly with a deep intellectual base really been right when the effect of their policy is to handcuff the United States to Third World nations in deep water that do not know how to swim? That is what we have done.

"If we have lost our independence and if we now are committed to bail out every nation which becomes inextricably linked with our economic well-being through our trade policies, is that smart?

"Regardless of whether or not you like the trend lines on the exports and the imports, is it right for us to give up our independence and link ourselves with these nations? Does that mean we are now going to link ourselves with Argentina, we are so linked that we now have to bail them out if they have a problem, or any of the other dozens and dozens of Third World nations which now will call on the United States to help bail them out because we have a substantial trade relationship?

"Now, let me just conclude by giving one 'I told you so' and 'Let's look at this thing in the future,' to all of my colleagues, my good friends, who supported NAFTA. The claim by the pro-NAFTA advocates on this floor was that Mexican workers were going to achieve a larger standard of living, go above that \$1,900 per capita per year income, and they were going to get up there to the point where they were making enough money to buy large amounts of American consumer goods and increase our exports. This devaluation has decreased the capability to buy by

about 30 percent. This proves that NAFTA was wrong." (*Congressional Record*, February 1, 1995, pp. H1030-H1031.)

Oil as Collateral for Loan Guarantees

Ms. Kaptur: "Mr. Speaker, I want to compliment the previous speaker, the gentleman from California [Mr. Hunter], who has been so much a part of our efforts to really open up international trade and explain the consequences to people in this country and abroad.

"I rise tonight with a rather heavy heart because of the action of the Clinton administration. Our Government is not a monarchy. We are a nation of laws and of balance of powers between this legislative branch, which is the first branch that the Constitution mentions, and the action, in my opinion, by the Clinton administration in extending over \$47 billion worth of credit from the taxpayers of this country is outside the constitutional boundaries of the executive branch.

"Now, Wall Street today and their irresponsible money men are cheering, because they essentially have been bailed out along with their 24 billionaire friends in Mexico with this gift package from the taxpayers of the United States of America with no vote by Members of this Congress. Wall Street investors have every reason to be happy. They got their money back from you, the taxpayers, but the American people should know that they are at risk, because this deal is backed up by worthless paper certificates of oil serving as collateral.

"Now, why do I say this? Does not oil have value? Under normal circumstances, it would. But the Mexican Government has long used its oil over and over, the same oil again, as collateral for debts they already owe.

"Did you know that Mexico has already pledged its oil in the European bond market, the Euro-bond market, for upwards of \$10 billion? That fact is Mexican oil no longer has any value for use as collateral on new debt, because it is pledged to old debt, and Mexico owes anywhere between, on the public debt it owes, between \$160 billion and \$200 billion.

"It would be almost better for Mexico to pledge jumping beans rather than to repledge their oil again.

"In the RECORD tonight I have taken out of Moody's Manual a list of where Mexico's monopoly-owned, state-owned oil company, Pemex, has already pledged the assets of their oil company.

"Suffice it to say, all the administration accomplished by conditioning new loans, these \$47 billion worth of loans from our taxpayers, on Mexican oil was to put our taxpayers at the end of a very long line of creditors to that oil. Even adding

up all the assets and production of Pemex, Mexico does not have enough oil revenue to cover the \$47.5 billion worth of new loans.

"In fact, the Houston Chronicle reports that Mexico will become a net oil importer by the turn of the century, because it is essentially producing half of the oil it produced a decade ago because of problems inside that oil company.

"Now, add to that what Mexico's own officials have said. The Mexican Secretary of the Treasury said, 'Our oil resources are not going to be used for guarantees.' Well, if they are not, what is backing up the risk to the taxpayers of this country?

"And Mexico's Energy Minister was quoted recently, and a direct quote again, 'Our oil will not be mortgaged nor will it form any part of any loan guarantee.'

"Now, maybe the United States Ambassador to Mexico cannot read Spanish, but it is all there in the Mexican newspapers to be read by anyone.

"Basically, my friends, by dodging Congress, our people have been sold a bill of goods that have no value by the administration in collaboration with the Government of Mexico. now our administration is scrambling to make this back-door deal look as legitimate as possible, but the fact remains the so-called collateral that Mexico is putting up for the \$47.5 billion in loans is worthless and, in fact, experts have estimated the entire worth of Pemex at somewhere perhaps, if we are lucky, about \$24 billion.

"So ask yourself when you read the fine print and they say they are going to book sales of oil on the Federal Reserve of New York's books, who is cooking the books? We are not getting barrels of oil. We are getting pledges of collateral that has already been overpledged.

"And if you really want to get cynical, and I will end with this statement, is it not interesting that this is not the first time this has happened? But in fact it happened right after the Presidential election of 1988, during that period when they were trying to prop up the value of the Mexican peso. It happened in 1982, and now they devalued the peso right after the Mexican election in 1994.

"Let the record speak for itself...." (*Congressional Record*, February 1, 1995, pp. H1030-H1031.)

The Rich and Powerful Benefit from Big Government

Mr. Duncan: "Mr. Speaker, I rise to once again voice my opposition to the Mexican bailout, and especially to the way in which it is being done.

"I have frequently said that today we have a Federal Government that is of, by, and for the bureaucrats, instead of one that is of, by, and for the people. But even I did not realize how little control the people of this nation now have over their own National Government.

"Once again we see the arrogance, the elitism, the public be damned, Big Brother knows best attitude of the powerful people who run this Government.

"Because of the overwhelming opposition of the American people to this Mexican bailout, the President did what has been described as an end run around Congress.

"Apparently, he found that the votes were not there, even though the political correct vote, the 'anything to gain the approval of the national media vote' would have been to be for this bailout.

"So the President and the big financial powers decided to come up with a plan that did not require congressional approval. This means that our Government is sending billions to Mexico even though everyone knows the vast majority of our people are opposed to it.

"This is the most undemocratic – with a small 'd' – thing I have seen during my slightly over 6 years in Congress. It flies in the face of the will of the American people.

"Big Government liberals have long had the belief or philosophy that Government knows best – that the people really don't know how to run their own lives or spend their own money.

"This latest action – sending this money to Mexico – is just another example of big government spending the people's money in a way that most Americans do not want. And boy are we talking money here – billions, with a 'b.'

"A few weeks ago, through the Treasury Department and the Federal Reserve, we provided \$9 billion of an \$18 billion package to prop up the peso. That wasn't enough.

"Now, the President has announced he is taking \$20 billion from the Exchange Stabilization Fund, even though this money was designed to stabilize our own currency and even though it has never before been used to prop up the money of a foreign country.

"Also, we are using \$20 billion of the \$25 billion in this fund, thus placing our own money in a less secure status.

"In addition, Mexico will receive \$17.8 billion from the International Monetary Fund, the largest loan in the Fund's 50-year history. Who is the largest contributor to the IMF? The U.S. taxpayer of course.

"Then we are sending \$10 billion more from the Bank for International Settlements.

"Billions and billions and billions – and all this at a time when the Heritage Foundation says Mexico already owes us over \$70 billion that they cannot now and probably never will repay.

"The big Wall Street and International investors bought Mexican bonds paying 24 and 30 percent interest rates. They certainly did not share their profits with U.S. taxpayers, but now they want us to protect them from losses for their foolish risks.

"Even a liberal like A.M. Rosenthal, the New York Times columnist, has come out strongly against this deal.

"Last Friday, he wrote:

"'Could it be that the administration had so enthusiastically promoted Mexico that it would have been terribly embarrassing – an election coming up and all – to disclose that Mexico 'suddenly' could not go on backing up its pesos and bonds unless the United States offered heavy loans to bail out investors?'

"And then he wrote, while we were still talking about just \$40 billion in loan guarantees – instead of the more lavish deal we now have:

"'Economic aid is often justified, but not 40 billion dollars to a country whose mess was created by the cowardice of bureaucrats and the mistakes of investors, theirs and ours. Americans would be foolish – I am being exquisitely polite today – if they agreed to any loan before they found out which American and Mexican investors would be the big beneficiaries....'

"Once again, Mr. Speaker, our Federal Government has shown that only the rich, the powerful, the wealthy, and those who work for the Government truly benefit from Big Government.

"In the meantime, our taxpayers get the shaft – they are left holding the bag – this time for a wasteful Government in Mexico, whose economy has been ruined by years of socialism.

"We probably cannot stop this now, but we would if we were truly listening to the citizens we are supposed to be representing...." (*Congressional Record*, February 2, 1995, pp. H1145-H1146.)

President Clinton Does an End Run Around the U.S. Constitution

Mr. Bunning: "Mr. Speaker, article I of the U.S. Constitution vests the power of the purse in the Congress. Unfortunately, the President of the United States has taken it upon himself to do an end run around the Constitution, the Congress, and the American people to bail out Mexico.

"Mr. Clinton has pushed the barriers past the breaking point. He is basing his power grab on a twisted reading of his authority under the Gold Reserve Act of 1934. That is the law which established the Exchange Stabilization Fund that Mr. Clinton has raided to save Mexico.

"The Exchange Stabilization Fund was not meant for the kind of shenanigans that Mr. Clinton is trying to pull. It was designed to ensure that we would have an orderly and stable system of exchange rates.

"In other words, the Gold Reserve Act gives the President authority to stabilize the U.S. dollar and protect its value. It does not give the President the authority to prop up the currency of Mexico.

"It seems that Mr. Clinton needs to take a refresher course in constitutional law. Only Congress has the authority to appropriate money.

"Apparently, the chairman of the Federal Reserve, Alan Greenspan, doesn't think too much of Mr. Clinton's bailout scheme either.

"The Washington Times reported on February 1 that the Exchange Stabilization Fund, the IMF and the BIS do not have the resources to deal with Mexico's problems. He went on to say that the bailout should be addressed by the political leaders of the country because of its broad implications.

"Mr. Greenspan is not alone in thinking that this financing scheme is a multibillion-dollar disaster waiting to happen....

"Our financial partners in Europe seem to understand the problem. When it came to a vote at the International Monetary Fund, Germany, Britain, Denmark, the Netherlands, Belgium, and Switzerland all abstained from voting rather than support Mr. Clinton's plan.

"I applaud my colleague, Mr. Taylor of Mississippi, for pushing the envelope of this issue by introducing a privileged resolution that will put the House on record as to where we stand on this bailout.

"His resolution will put us on track to determine whether the President has acted outside the scope of his authority.

"We have all sworn to defend the Constitution of the United States. If the President is wrongly seizing power from the legislative branch, it is our duty to stop him.

"Mr. Taylor's privileged resolution is just the thing to start the inquiry into what I believe may be the power grab of our time. Congress, not the President or the Courts, is charged with the power to spend the money.

"We cannot sit on our hands and watch the President shred the Constitution and ignore the will of the Representatives of the American people. We must let everyone know that this body looks out for the interests of the American people, not the Government of Mexico...." (*Congressional Record*, February 6, 1995, pp. H1215-H1216.)

The CIA Warned the White House in July of 1994 About Peso Crisis

Mr. D'Amato: "Mr. President, last week, the President of the United States went around the will of the people to bail out a mismanaged Mexican Government and global currency speculators. That was wrong.

"I am outraged that American taxpayers are being forced to do something they did not want to do. The President went around the people knowing that Congress would not approve a \$40 billion bailout of Mexico.

"Never before has a president used \$20 billion from our exchange stabilization fund to bail out a foreign country. The ESF is not the President's personal piggy bank. This fund is supposed to be used to stabilize the dollar, not the peso. The President was wrong, and I am outraged.

"The President has used scare tactics to justify going around Congress to bail out Mexico. The President claimed that world stock markets would crash and floods of illegal immigrants would cross our borders. The President was wrong, and I am outraged.

"As former FDIC Chairman Bill Seidman testified last week, Mexico's credit crunch can be solved by letting the market work. Mexico and its creditors should be forced to renegotiate its debt. That's the capitalist way. Investors in Mexico might get 50 or 60 or even 70 cents on the dollar. That is fair. Investors in Mexico took a gamble. If they wanted a United States-guaranteed investment, they should have put their money into a 6-percent C.D., not a 20-percent Mexican pesobono.

"The President has given in to economic blackmail. Will American taxpayers have to send Mexico \$40 billion next time to protect our borders from illegal immigration? I am outraged that the President has used our exchange stabilization fund to pay blackmail to Mexico.

"The President has set a terrible precedent. What happens next time the peso collapses? What happens when some other country's currency collapses? The American taxpayer cannot afford to be the world's banker. We cannot afford to bail out global currency speculators every time a foreign currency collapses.

"The President should not be sending \$20 billion to Mexico when Congress must cut United States domestic programs to put our own economic house in order. The Governor of my home State has to cut \$5 billion from the state budget. We should send \$20 billion to New York or Florida or California or other States that are in need before we send it to Mexico.

"Make no mistake about it. Two years from now. Five years from now. I predict that this bailout will go down as one of the President's biggest blunders.

"I predict that this bailout will not work. It is a quick fix and will come back to haunt American taxpayers. They will wind up paying.

"Let us look at the facts.

"Mexican political bosses got into this mess to win the August 1994 election. They printed pesos at an outrageous rate. They created the illusion that the Mexican economy was still thriving, and then they devalued the peso. That was wrong. It hurt poor and middle-class Mexicans. We should not bail out mismanaged foreign governments.

"The President's plan will not force Mexico's ruling party to make needed economic or political reforms. Once our money is shipped to Mexico, we will have no leverage.

"Let us look at some of the promises Mexico has made for the \$20 billion of American taxpayers' money – promises Mexico cannot keep.

"Mexico has promised to keep inflation low. But they cannot do that. The peso's devaluation has set off 20 to 30 percent inflation, and the Mexican Government will have to keep printing pesos to prevent more unrest in Chiapas.

"Mexico has promised to cut spending and to maintain a budget surplus. But that is impossible. Mexico must pay sky-high interest on more than \$160 billion in debt and faces a recession.

"Mr. President, let me ask the question. If we cannot balance our budget here, here we are promising \$20 billion to Mexico, not a loan guarantee. We are going to give it to them. We say as one of the conditions we expect you to have a budget surplus. I ask, is that realistic? We cannot balance a budget here. We are not saying Mexico is going to have a budget surplus. That is ridiculous. It is ludicrous. And no one could promise you that would take place.

"Mexico has promised to raise \$12 to \$14 billion through privatizations. But who is going to invest in Mexico now? How are they going to bring about privatization?"

"I am outraged that the President's bailout of Mexico will leave American taxpayers holding the bag. Now, when we have to make painful cuts in the Federal budget, is not the time to be risking American taxpayers' money."

"The administration assumes that Mexico will pay off its debt. But Mexico could not pay back United States banks in 1982."

"The President claims that assured sources of repayment exist. But if assured sources of repayment really existed, banks and private investors would provide money to support Mexico's debt."

"The President has not obtained real collateral. Mexico has already pledged its oil reserves as collateral for its existing debt."

"The President relies solely on a security mechanism involving the New York Fed. But this security mechanism is a mirage. It goes into effect only after a default. Mexico can sell oil only to customers who do not pay through the New York Fed."

"When Congress provided \$1.5 billion in loan guarantees to New York City and Chrysler, Congress demanded much more collateral. I am shocked and outraged that the President has not demanded more collateral from Mexico for \$20 billion."

"What will the President do if Mexico refuses to pay us back? Will the President send in the 82nd Airborne to seize the oil fields? Of course not. It is preposterous. Will he try to raise U.S. taxes to replenish our exchange stabilization fund?"

"The President's bailout will not win us friends south of the border. Already the Mexican people resent the fact that we are making those moneys available on conditions that they speak about. Most Mexicans oppose the \$40 billion bailout."

"The administration says that it was taken totally by surprise when Mexico set off this crisis by devaluating the peso on December 20. "But the signs of serious trouble in Mexico were present months ago. Congress must determine what the administration knew about Mexico and when."

"The New York Times, January 24, 1995, reports that the CIA advised the administration in July 1994 – 6 months before the peso's devaluation in December – that Mexico's ruling party was borrowing and spending at a furious pace."

"We have an obligation to investigate whether the administration's inaction or silence caused this crisis. We must find out if the administration advised Mexico to devalue the peso. Devaluation was a terrible mistake. We all admit that now. But who was there and when? What advice did this administration give, if any, to the Mexican Government?"

"On January 26, Senators Dole, Lott, Mack, and Abraham asked for documents concerning the administration's advice to Mexico on currency devaluation. Twelve days later, we still have not received these critical documents.

"Why have we not received these documents? When will we get them? What is the administration hiding? The American people have a right to know.

"The Banking Committee will hold oversight hearings on the administration's use of the ESF to bail out Mexico.

"Senator Mack and I will introduce a sense-of-the-Senate resolution that the Treasury should, in conjunction with the minority reports required by the ESF statute, provide the Banking Committee with monthly information on: First, economic conditions in Mexico, and second, how Mexico is spending the \$20 billion.

"American taxpayers have the right to know whether their money is being wasted in Mexico. They have the right to know if the Mexican Central Bank has slowed the peso printing press. They have a right to know if Mexico has stopped spending and balanced its budget.

"We must hold the administration's feet to the fire. We must blow the whistle if the administration does not make Mexico live up to its commitments – to stop the peso press, to balance its budget and to privatize. We must fight for middle-class American taxpayers, not for mismanaged foreign governments and global currency speculators...." (*Congressional Record*, February 8, 1995, pp. S2324-S2325.)

Chase Manhattan Bank Worried about Potential Losses in Mexico

Mr. Defazio: "Madam Speaker, a lot of news is about trade today and it is all bad or it is bad if you care about the economic future in the United States and you care about the conditions of working people and wages in the United States. [It] might be good if you are a multinational corporation and looking for cheap labor elsewhere and looking for ways to profit. But not to further the future and the economic prosperity of our own Nation.

"The administration is very proud they finally struck a deal on the Mexico bailout. Great deal: \$20 billion, \$20 billion up front from the United States of America. Mr. Kantor, the special trade representative, is downright proud that we were able to get this deal. And it is a really bad deal for people on both sides of the

border, it is an incredibly bad deal for the people of Mexico. It is expected that it will cause a recession in Mexico, it will drive interest rates up to 50 percent in Mexico, it will cause businesses to fold in Mexico because most of them have adjustable loans so their rates are going up dramatically and quickly.

"Banks will fold in Mexico. And wages are now at 40 percent of the level of 1980, despite the increases in productivity.

"Well, maybe it is a good deal on our side of the border and that is why he is so happy. Well, maybe not.

"First off, \$20 billion at least. We do not know how much money the Federal Reserve has secretly shipped to Mexico, how much we are involved in the funds coming from the international institutions.

"But it is a lot of money. And money that could have been spent productively here at home.

"But beyond that we have some analysis now, analysis by DRI McGraw Hill, a private consulting firm in Lexington, Massachusetts. It says that U.S. exports to Mexico will drop by \$10 billion this year, leading to a loss of 350,000 U.S. jobs. So we are going to pay \$20 billion of our taxpayers' money to ship 350,000 family-wage jobs to Mexico. Now that is a great policy.

"But they tell us do not worry, it is all short term, it all will get better. In fact, Chase Manhattan has a memo and its says quite frankly they can fix the problems down there in Mexico, they just have to do a couple of things. The government will need to eliminate the zapatistas to demonstrate their effective control of the national territory and of security policy, if they want to encourage further investment in Mexico.

"It seems Chase Manhattan is pretty upset that they wagered – and that is what this is about – wagered a huge amount of money in Mexico trying to get obscene rates of return. Now they are upset that the junk bonds they bought have turned truly to junk and are worthless.

"These are policies that are not in the long-term interests of the United States of America, nor the people of Mexico. It is time that we began to get straight about our trade policy in this country.

"I introduced legislation earlier this year to repeal the benighted NAFTA Agreement, and at the time people thought, 'Well, that is a pretty far-out thing.' I would say, given the events since then, given the massive bailout, given the huge loss of jobs we now admit we are going to suffer into the indefinite future, is it not time to revisit that agreement?"

"It is not good for people on either side of the border. It causes tremendous harm.

"Let us rip it up and start over again...." (*Congressional Record*, February 21, 1995, p. H1955.)

The Federal Reserve Board is Subject to the Jurisdiction of Congress

Mr. Traficant: "Mr. Speaker, the Constitution says only congress can draw money from the Treasury. It also says only Congress can coin money and regulate the value thereof and regulate the value of foreign money. Only Congress, the Constitution says, can regulate commerce with foreign nations.

"The question I ask, Congress, is under what authority did Robert Rubin sign an agreement to bail out Mexico? To me it is unbelievable.

"Now, the Washington Times reported that our bailout is going to bail out the Mexican banks and Mexican companies. Ladies and gentlemen, we are bailing out Mexican banks, we are putting our banks on the line here and our taxpayers in the fire.

"I disagree with this. I think the Federal Reserve Board is subject to the jurisdiction of Congress, not the White House. It is time for a constitutional court case to determine it.

"I plan to challenge the bailout in court." (*Congressional Record*, February 22, 1995, p. H1972.)

Wealthy Remove Money from Mexico

Mr. Roth: "Let me say this. This is one small step in the right direction, one very small step. I think it is important for us to get the information from the administration. This is a \$20 billion bailout. The Republicans made a Contract With America and Clinton made a contract with Mexico. But I guess what really bothers me is that this is going to be tough on the American taxpayer and the people of Mexico. It is a win-win for the billionaires. There are more billionaires per capita in Mexico than any other country in the world and they are coming out in great shape. They took \$3 billion out of Mexico before the devaluation. We also find out that Templeton, the day before the collapse, took their money out of Mexico. All the smart money left Mexico. But Clinton put American taxpayers' dollars into Mexico. That is what bothers me. I think it is important to point out that this is working Americans' taxpayer dollars.

"Mr. Speaker, all the smart money got out of Mexico. Then our Government went into Mexico. It is like rowing out to the *Titanic* and getting onto the ship and wondering why everybody else is going the other way. This is not smart policy.

We are never going to see this \$20 billion. This is a stabilization fund. What happens if our dollar gets into trouble? We could have used these billions of dollars to shore up our dollar. What happens when our dollar goes down as it has gone down in the past? What are we going to do to shore up the dollar? This is going to have far-reaching implications...." (*Congressional Record*, March 1, 1995, p. H2448.)

An Elite in America Attempting to Run the government

Mr. Rohrabacher: "I agree with you. There is an elite in the United States of America who think that they own this country, and they do not own this body.

"We may be spending tens of billions of dollars right now, but the people will be heard. This is the first step toward making sure that the people's voice holds sway in Washington, DC, and the Nation's Capital.

"Those Americans who are listening to us right now should make sure that they contact their Representative and write the White House and make sure that the leaders here in Congress and in the executive branch get the message that we have got to stop shoveling money south of the border, stop paying off Wall Street speculators.

"They want a balanced budget. The American people want a balanced budget. And we are betraying everything that they want...." (*Congressional Records*, March 1, 1995, p. H2453.)

A Major Economic Crisis is Brewing

Ms. Kaptur: "Madam Speaker, I wish to associate myself with the remarks of the prior speaker. There is no question that the value of our Nation's currency on international markets is a measure of our Nation's economic health. And over the past few days and weeks, our dollar has hit historic lows against currencies of all the nations that we trade with. In fact, it is at the lowest level, our dollar's value, since World War II. That is a longer time than many people in this Chamber have been alive, so it has not been at this point for decades.

"The dollar's exchange value stands at a scant 92.8 yen to the dollar. I can remember when it was 240 yen to the dollar and 1.4 German marks against the dollar. In other words, the dollar is not looking so good to the rest of the world. It is losing its value. It is looking cheap.

"Little that our Treasury Department or Federal Reserve have been able to do over the last few days to give the dollar a boost has worked. In fact, they put over \$2 billion into buying currencies around the world over the weekend and it did not do any good. Did not do any good, had no impact on stopping the dollar's further decline.

"Now, what does this really mean to families in our Nation? It means that our money, our people's money, cannot buy as much, not just here at home, but abroad. It means that interest rates in our country rose seven times over the last 12 months, even though most people were going, well, why are interest rates going up? There is really no inflation. What is happening here? Banks are raking in good money off of our people, and though there is no inflation on the horizon, we see that our Nation is raising interest rates to attract money from other places because our money is not worth as much.

"In fact, we are now, the United States of America, the largest debtor nation in the world, and through NAFTA, we linked ourselves to Mexico and Canada, and North America is now the largest debtor continent on the face of the planet.

"And the markets know it. For 15 years our country has been importing vast amounts of merchandise, more than we exported. In fact, last year, 1994, we had the largest merchandise trade deficit in the history of our country; as Congressman DeFazio referenced, over \$166 billion more of goods coming here than we sent out.

"In effect, what we have, we have a decapitalization of the United States of America; production that used to be done here is being done somewhere else. We are importing all this stuff and then we have to pay for it with borrowed money. Doesn't sound like very smart policy to me.

"Last year, our deficit with Japan went up even more, to over \$65 billion. Our deficit with China went up to nearly \$30 billion, and the former surplus that we had before NAFTA with Mexico dried up and went into the negative numbers in October and November of last year, and with the incredible devaluation of the peso, it is estimated that this year of 1995, the United States will yield nearly \$15 billion more of trade deficit in the red with Mexico.

"In other words, Mexico will be sending more goods to this country than we will be sending down there. That is not how NAFTA was supposed to work. It is clear that since the middle of February, and like Mr. DeFazio, I have a chart that shows the value of the U.S. dollar going down. Since the mid-1980's until the most recent period here after the Mexican peso was devalued, to which we have not linked ourselves inseparably, the value of our dollar has dropped at the fastest rate in the history of our country, and like Mr. DeFazio, I am shocked there are no emergency hearings in the Congress. There is no word from the White House. At least the newspapers are reporting, and it has been in top headlines in USA Today,

in the New York Times, in the Wall Street Journal. You think Washington fell comatose on this one.

"There is a major economic crisis brewing, and money is flowing out of our Treasury to try to prop up the Mexican peso, a few billion dollars. Actually there is more money that has flowed out of the Treasury to prop up the Mexican peso than money has flowed out of the Treasury to prop up the United States' dollar in international markets, we learned this morning. What happened today? Peso went down again in terms of its own value....

"Madam Speaker, let me just say in closing, is not it time someone in this House rang the alarm bell to say enough is enough, and I call on Speaker Gingrich to allow our bills to move to the floor to stop the further outflow of taxpayer dollars to Mexico...." (*Congressional Record*, March 7, 1995, pp. H2787-H2788.)

The Mexican Peso Bailout debacle is a classic example of the "Arrogance of Wall Street" and their total disregard for the American people. It also reveals the close working relationship between Wall Street and key politicians in Washington, D. C. who are beholden to the financiers for campaign contributions and support. The powerful forces on Wall Street were once again allowed to pillage the American taxpayer out of billions and billions of dollars.

Part IV Global Interdependence – Spinning a Web of Control

7. The Emerging Global Community

Beginning with Plato and his philosopher-kings there have been various attempts to fashion a new world order or global community. Attempts to create a world state have included the Amphictyonic Council of the Greek States in 1497 B.C., the Lycian Confederacy in 1400 B.C., the Achean League in 281 B.C., the Hanse Towns organization in the twelfth century, the Helvetic Union in Switzerland, the Grand Design of Henry IV of France and Elizabeth I of England, and the Holy Alliance of the Emperor of Austria and the king of Prussia in 1815.

The League of Nations

Between 1815 and 1920 a steady stream of literature advocated a united world of peace and prosperity. At the end of World War I the League of Nations made its abrupt appearance. The League contained much of the same machinery as the Grand Design and proved a failure just as earlier attempts to create a world state had also proved unsuccessful.

The United Nations

At the end of World War II the United Nations organization suddenly burst into the international arena and once again visions of a world state spread throughout the nations of the earth. The success of the United Nations as a mechanism to achieve world peace has been questioned by many scholars who feel that the U.N. has disappointed their "internationalist superhopes."

Movement Toward Supra-National Rule

Movement toward the creation of some type of supra-national world order has greatly intensified in the 20th century. This intensification has, no doubt, occurred because of tremendous technological advancements in practically all areas in a relatively short span of time.

Utilizing innovations in communications and travel – from streamlined Concordes to world satellites that seem virtually to shrink the size of the earth – a number of prominent, influential men of the world have undertaken what Harlan Cleveland terms the 'third try at world order.' To assist them in their development of new or renovated supra-national institutions for the governance of the emerging global system, these men have called on universities and colleges, think tanks, private organizations, media conglomerates, individual nation-states, multinational corporations, international banks, and other international institutions. Cleveland

calls these future leaders of the developing international system the "consortia of the concerned." (*Ibid.*, p. 79.)

Joint Effort of Public and Private Organizations

Development of the emerging global system is being encouraged by a multitude of organizations both public and private. Among these are the Trilateral Commission, the Council on Foreign Relations, the Foreign Policy Association, the Royal Institute of International Affairs, the German Society for Foreign Policy, the International Affairs Institute, the Swedish Institute of International Affairs, the Aspen Institute for Humanistic Studies, the Atlantic Institute for International Affairs, the Bilderberg Meetings, the Ford Foundation, the Rockefeller Foundation, the German Marshall Foundation, the Guggenheim Foundation, the Organization for Economic Co-operation and Development, the Atlantic Council of the United States, the Brookings Institution, Rand Corporation, Exxon, General Electric, Xerox, Mobil, Standard Oil of California, Sony Corporation, Texas Instruments, Royal Dutch Shell, I.T.T., the Chase Manhattan Bank, the Bank of America, Citicorp, Deutsche Bank, Banque Nationale de Paris, J. P. Morgan and Co., the International Monetary Fund, General Agreement on Tariffs and Trade, the International Bank for Reconstruction and Development, the European Economic Community.

Great Vigor Attends Construction of a Global Community

Today's emerging international system is extending its influence at a speed that is almost breathtaking, considering the expansive nature of the global system under construction. Efforts to construct a world order or global community have never been attended with more vigor and determination than at present.

Piecemeal Functionalism

Those who travel in high circles – the international elite – are finally seeing an emerging global system beginning to take concrete form, following years of deliberation and trial and error. Construction of the global community is taking place institution by institution, a process termed 'piecemeal functionalism' by the Trilateral Commission.

One of the Commission's *Triangle Papers* elaborated on this concept as follows:

"In general, the prospects for achieving effective international cooperation can often be improved if the issues can be kept separate – what we call piecemeal functionalism. Progress on solutions is likely to be faster and the solutions are likely to be more durable.

Cooperation on a Functional Issue Basis

"Where cooperation on a functional issue offers all participating countries potential specific gains, these gains are most likely to be achieved by focusing on the issue in question rather than combining it with negotiations cutting across many areas. By narrowing the negotiation, it can be kept concrete and deal with specific arrangements and procedures. In such cases, specialists (who are more likely to dominate more limited discussions) may be better able to reach agreement than political generalists for whom issues are more likely to become symbolic of victory or defeat for particular national or regional political viewpoints. Specialization creates common bodies of knowledge and intellectual frameworks among experts from many nations. Coalitions of specialists can be built across national boundaries in specific functional areas, blunting the nationalism that might otherwise hinder international agreement. These factors do not mean that the issues may not be 'political' or involve political choices. Indeed, the choice of specialist negotiations is itself a political decision. It is a matter of how political leadership is exercised.

Wisdom of a Piecemeal Approach

"This guideline can be illustrated in several issue areas of current or recent importance. The failure of attempts, after the disintegration of the Bretton Woods system, to draw up a comprehensive detailed blueprint applicable to all participating countries suggests the wisdom of a more piecemeal approach, concentrating on improvements on the arrangements we already gave. It is not clear that current law of the sea negotiations, which combine all the issues, represent the best path toward improved oceans management. The effort to construct a comprehensive package deal in these drawn-out negotiations hold in suspension agreement in particular areas and has frequently raised these issues above a specialist level of consideration. Solid progress might have been greater with a more piecemeal approach, an approach to which some countries may revert if the construction of an overall package collapses....

Three Types of Linkages

"We do not underestimate the difficulty of separating issues for the purposes of discussion or negotiation. Nor do we mean that issues should always be divided as finely as conception allows. Many linkages exist among seemingly diverse issues. Three types of linkages may be distinguished. First are technical, inherent linkages that obviously cannot be avoided. Second, linkages are sometimes made for bargaining purposes, especially where a party, which has little leverage on the specific issue, has more on another. In the jockeying leading to the Paris negotiations in the Group of 27, between the advanced and developing countries, the OPEC states used their leverage to insist on the wider agenda of economic

issues. Third are comprehensive approaches, joining together large numbers of issues over a very broad field, such as the negotiations on the law of the sea.

Advantages of Functional Specificity

"The advantages of functional specificity are borne out by the experience with international institutions. As argued in an earlier report, 'functionally specific international organizations succeed far better than multipurpose organizations in accomplishing concrete tasks....' This is clearest for essentially nonpolitical issues, such as those handled by the Universal Postal Union and World Health Organization. But it is also true for the functionally specific economic institutions, such as the IMF and GATT.... The same countries which will often indulge in fanciful rhetoric in a broad, multipurpose organization (such as various UN agencies) will often be negotiating seriously and cooperatively in another organization (such as GATT) on the same issue at the very same time. The more technical focus, and lesser public awareness, of such organizations promotes such a result.... [B]roader, multipurpose groups (such as the United Nations) also have an important – though quite different – role to play. They are better than functionally specific groupings for legitimizing broad new concepts. They may be able to coordinate the activities of many functionally specific organizations.... They enable governments to transmit their political concerns, and convey their domestic political pressures, without fear of jeopardizing progress toward concrete goals. Their wide-ranging debates can help set future agendas for functionally specific organizations." (Richard N. Cooper, Karl Kaiser, Masataka Kosaka, "Towards a Renovated International System," *The Triangle Papers: 14*, New York: The Trilateral Commission, 1977, pp. 32, 33-34.)

Brzezinski Calls for Shaping a Genuine Framework for World Order

One of the most outspoken advocates of a "new world order" is Dr. Zbigniew Brzezinski, former Director of the Trilateral Commission and former National Security Advisor in the Carter Administration. In an conducted by James Reston, printed in *The New York Times Magazine* of December 31, 1978, Dr. Brzezinski stated:

"We are engaged in shaping a genuine framework for a cooperation for a world that, for the first time in its history, has become politically active and awakened....

"Today, in the ultimate sense, national security means an active and positive engagement by the United States in shaping a rapidly changing world in ways that would be congenial to our interests and responsive to our values....

Need for Active Shaping of New and Wider Global Institutions

"I think we are now beginning to realize that there is no such thing as simply maintaining the status quo in order for American values and the American system

to survive. I believe strongly that more people appreciate the fact that to make the world congenial to ourselves, to prevent America from being lonely in the world, we have to be very active in shaping wider and new global institutions, wider and fairer patterns of global cooperation. This is why we have to shape new arrangements to give so many new participants in the global political process a genuine opportunity to participate....

"There is...a redistribution of both political and economic power in the world today....

Shift in Economic Power

"There is...a displacement in roles taking place. It is accompanied by shifts in concentration of economic power....

"Today military power is split between the West and the Soviet Union. Economic power is becoming more dispersed. There are new clusters of financial wealth and influence which are imposing enormous strains on the existing monetary system. All of that brings me back to my basic and central message. The fundamental national-security policy of the United States has to be one of active involvement in shaping this variety of forces into a cooperative framework....

Close Consultations with Japan and Western Europe

"We cannot shape them alone, and this is why we have put more emphasis than our predecessors on closely consulting with the Europeans and the Japanese, who are at a similar stage of development and have similar political values. Secondly, emphasis must also be placed on consulting very closely with the newly influential countries of the world – Venezuela, Brazil, Nigeria, Saudi Arabia, India." ("The World According to Brzezinski," *New York Times*, 1978, pp. 9, 10.)

Regional Groups in the Middle East

In reference to regional groups in the Middle East Brzezinski stated:

"Peace is in the interest of the United States.... But it is also in the interest of Israel, of the moderate Arab countries and of the Palestinian people – who cannot be ignored – that there develops a pattern of regional cooperation ranging from Iran even all the way to Morocco and from southern Arabia to the shores of the Mediterranean with the West. If there is such peace in the region, not only will the Arab countries be able to modernize rapidly but I have not the slightest doubt that Israel will become the Switzerland or the Singapore of the region, and, therefore, there is a real opportunity for Israel to flourish the way its founders dreamed." (*Ibid.*, p. 11.)

World Role for the United States

To the question concerning the real role of America in the world, Dr. Brzezinski responded:

"In my judgement the real threat to the future is not that the world will someday be painted a single color – red – under a single flag – that of the Soviet Union. I don't think the Soviet Union has either the ideological capacity or the economic power or even the military resources to impose global domination. I think the real danger to today's world is that the conflicting aspirations of man will create massive global chaos and fragmentation.

U.S. Role in Dealing with the Soviet Union

"I am fearful that the Soviets might be tempted to exploit this in a shortsighted fashion to complicate these difficulties. Because of that, it seems to me, the proper role of the United States is (1) to deter Soviet military power; (2) to engage the Soviets in wider cooperation and to engage them in a constructive response to the global condition; (3) to harness the shared beliefs of our allies and friends to make the world political system genuinely more just and participatory, and (4) to try to create global policies which are responsive to the fact that the global population is now politically awakened and in most cases living in very unfair conditions.

Shaping Future Power Centers

"This means ultimately an active effort genuinely to shape a stable world of diversity with centers of power and many ideological systems coexisting – a world which doesn't correspond to the 19th-century doctrine of a single system for the world as a whole, a notion which is totally unrealistic and meaningless. I am optimistic about our role because I think our visions of the future and our definition of our role corresponds more accurately to genuine global dynamics than that of the Soviets or the others." (*Ibid.*)

U.S. is a Microcosm of the World

In reference to the world of tomorrow, Dr. Brzezinski believes:

"America, precisely because it is a country which is not united by an organic past but by shared future, is a microcosm of the world. The world is not united by a common past but increasingly it has a common future, which is going to be either bad or good. America proves that people can come together, cooperate on behalf of central ideas. When we came together as a society, the notion of liberty was in the air only in Western Europe and along a small band of 13 states. We managed to create a society which in effect was a framework for 200 years of sustained efforts to implement this concept of human liberty. We have created a framework for seeking to implement the idea of human liberty.

U.S. Gradually Spinning a Web of More Cooperative Relationships

"Today the world needs a framework for the fulfillment of the ideas of human liberty and human justice. I think we can offer a great deal to the shaping of such a popular framework, not by domination, not by a Pax Americana, but (1) by repelling the imposition of ideological orthodoxy on the world, which nobody desires and from which nobody would benefit and (2) by gradually spinning a web of more cooperative relationships. Not only with our traditional friends but also with the new countries. And then, last but not least, with our adversaries. I consider that to be the central task of our policy.

Active Role for U.S. in Shaping Worldwide Cooperative Institutions.

"Beyond that, of course, you can reduce it to more specific levels. It is to provide the umbrella of defense for Western Europe. It's to resolve the Middle Eastern problem and to tie the Middle East into a cooperative relationship with the United States and Japan. It is, of course, to secure the Persian Gulf. It is give China a meaningful role in a nonhegemonic world through friendship with us. So, as you go down from the general to specific, the policy purposes become more precise. But they are all related to the President's central message, which I cannot reiterate strongly enough, that America's role today has to be that of active engagement in shaping worldwide cooperative institutions. And to say that means repelling security threats, maintaining our own ability to influence others politically, economically and militarily, encouraging regional clusters of power and insisting on ideological and philosophical diversity." (*Ibid.*)

Future Linkage of Trilateral and Communist World

In discussing future linkage of the trilateral world with the communist world Dr. Brzezinski added:

"I don't feel that there is a fundamentally unbridgeable abyss between the West and the Russians. I think that ultimately, if we are patient and persistent, we can bring about with the Soviet Union, despite the military-ideological competition, a relationship of more genuine cooperation. And that should be one and is one of our key objectives." (*Ibid.*, p. 26.)

Regional Groupings in the Western Hemisphere

In reference to regional groupings in the Western Hemisphere, Dr. Brzezinski stated:

"We have deliberately chosen...to pursue a policy of treating Latin American countries as mature partners on a bilateral basis in most cases, as we do with Europe and Asia; on a regional basis when needed (and we have made real strides in developing Caribbean cooperation); and on a global basis in regard to those

problems which Latin America shares with other developing countries. I think we have made real progress.

Improving Relationships with Venezuela and Brazil

"Beyond that, we have done well in improving our relations with Venezuela. We are now moving forward in our relations with Brazil and Americans should be aware of the positive developments toward genuine democracy in Brazil. We have a good long-term relationship with Brazil, which happens to be the only country which fought with us shoulder to shoulder in World War II.

Need to Shape Joint U.S.-Mexican Policies

"And, last but not least, we need to improve our relationship with Mexico, lest by the end of the century we have 120 million people to the south who will not be our friends. We have a lot in common with Mexico, and we could have a creative relationship of community if we are farsighted and if we work closely with the Mexicans themselves in shaping joint U.S.-Mexican policies on the issues between us: trade, migration, natural resources." (*Ibid.*, pp. 26-27.)

Brzezinski's Ambition to Shape the World Role of the U.S.

Herman Nickel asserts in a recent article in *Fortune* magazine that the European-born Brzezinski is driven by an ambition to use his academic career as a springboard to "shape the world role" of America. He notes that it was Dr. Brzezinski "who took on the normalization of relations with Peking, and coped with the final stages of the Iran crisis...." ("Why 'Zbig' Is Not Quite on Top of the World," *Time* Apr.23, 1979, pp. 71-72.)

Construction of a New World Order That Will Eventually Confront the Soviet Union

Nickel outlines Dr. Brzezinski's view on the emerging global community as follows:

"Brzezinski envisages the building of a new international order that would in the end confront the Soviet Union with a choice to join or to compete – a choice, in the blunt words of the President's Annapolis speech of June, 1978, between 'confrontation and cooperation.' At the core of this world order would be the trilateral relationship between the advanced industrial democracies of the U.S., Western Europe, and Japan. This trilateral union also would have to reach out to the Third World in a cooperative relationship to help it fulfill its economic and political aspirations – in return for the energy sources and raw materials on which the industrialized countries depend.

Regional Influentials

"To buttress this relationship, Brzezinski would assign special roles to the 'regional influentials' – his academic and ungainly jargon for local power centers around which neighboring countries could cluster and join the U.S. and its allies in common endeavor. The countries cited by Brzezinski for such regional leadership include Mexico, Venezuela, and Brazil in Latin America; Nigeria in Africa; and in Asia, India – and 'very much' 'China.'" (*Ibid.*, pp. 72-73.)

Two Very Prominent Organizations Promoting World Order Concepts

Two of the most prominent organizations in the western world advancing concepts for a global community are the Council on Foreign Relations and the Trilateral Commission. The Council could technically be called a "spawning ground" for world order concepts, and the Commission a "task-force" for implementation of those concepts.

The Trilateral Commission

The Trilateral Commission holds regular meetings in various parts of the world, in which it discusses various policy oriented task-force reports. Trilateral task forces are comprised of high-level academicians from Europe, Japan and the U.S. At the Trilateral meetings the task-force reports, which contain policy recommendations of the Commission, are discussed and summarized. They are then published as monographs, and are called *Triangle Papers*. Although the *Triangle Papers* receive little public attention, they have had a tremendous influence on government policy-makers and high-level academicians.

Reform of International Institutions

In *Triangle Paper* No. 11, "The Reform of International Institutions," the authors stated:

"Mankind has turned increasingly to international institutions as interdependence among nations has grown. Communications and health were among the first concerns where national borders became obsolete, and successful international organizations were created. The horrors of the First World War produced the League of Nations, the planets first effort to organize for its collective security. The Second World War triggered the creation of the United Nations, to pursue the same objective. The lessons of the Great Depression, which caused massive human tragedy and accelerated the slide toward renewed armed conflict, stimulated the creation of a wholly new set of international institutions aimed at providing the world with collective economic security." (C. Fred Bergsten, George Berthoin, Kinhide Mushakoji, New York: Trilateral Commission. 1976, p. 1.)

Making the World Safe for Interdependence

The authors, C. Fred Bergsten, George Berthoin and Kinhide Mushakoji, also expressed the view that:

" A major lesson from the past is that international institutions can make the world safe for interdependence and indeed are necessary to avoid efforts by individual nations to export their internal problems to each other. Hence all issues of international interdependence should be brought under the governance of effective international rules and institutional arrangements. Several new institutions need to be created to deal with topics newly critical to international interdependence. A new institution is particularly needed to govern foreign direct investment and multinational enterprises. One set of problems here derives from the global scope of operations of multinational firms, exceeding the jurisdiction of any individual government. The second concerns the need for rules to check the efforts of national governments to seize for their own countries a disproportionate share of the benefits generated by foreign direct investment. New arrangements are required on several fronts in the area of commodity trade. Commodity agreements, with buffer stocks to defend floor and ceiling prices alike, will be the best answer for some products. The proposed International Resources Bank could help smooth the flow of investment capital into producing countries and help assure adequate output over the longer run.

Needed Reform in Several Existing International Institutions

"Several existing international institutions need reform. New arrangements are needed in the General Agreement on Tariffs and Trade (GATT) to govern export controls, like the rules which have for a generation governed import controls. The GATT needs reform in a number of other areas as well. The International Monetary Fund (IMF) needs new arrangements to effect multilateral surveillance over the system of flexible exchange rates and control over the growth of international liquidity. For the first of these two purposes, a permanent committee should be created within the Fund to monitor exchange markets constantly and develop norms against which to assess national interventions. For more control over liquidity, a Reserve Substitution Account should be created through which national monetary authorities could convert their current reserve assets into Special Drawing Rights. SDRs were developed in the late 1960s to permit effective control in this area, but have fallen into disuse.

Need to Think in Terms of Managing a Single World Economy

"The OECD should strengthen its process of consultation on the policy plans of the major industrialized countries and the likely interactions among them. The economic officials of at least the largest countries must begin to think in terms of managing a single *world* economy in addition to managing *international* economic relations among countries. In the area of development assistance, a consolidated

'world development budget' should be constructed each year and discussed actively by donor and recipient countries, perhaps in the World Bank, as they formulate their plans. This budget might then be coordinated with other developmental policies in the United Nations.

The Greatest Danger to International Stability

"History has shown that the greatest dangers to international stability often arise from those nations whose real power is inadequately reflected in the relevant sets of international arrangements and symbols of status therein. Such nations can challenge the legitimacy of the system with actions as well as rhetoric.

Need to Bring Developing Countries into Current Phase of Institution Building

"Much of the current call for a new international economic order flows directly from such concerns, and a major need in the current phase of institution-building is to bring developing countries into effective participation in the international system. First, serious and sustained attention must be paid to their substantive concerns. In terms of broad objectives, this requires the international economic system, to attach priority to issues of income and wealth distribution as well as the more traditional goals of efficiency and growth. A second essential step is to provide major developing countries with a role in the international decision-making process which corresponds to their sharply increased importance to the system. A third step is to go still further and bring selected 'newcomers' into the inner circles of international decision-making." (*Ibid.*, pp. v-vi.)

Toward a Renovated International System

In 1977 the Commission published *Triangle Paper* No. 14, entitled "Towards a Renovated International System." The authors of this report, Richard N. Cooper, Karl Kaiser and Masataka Kosaka, declared:

"The most pervasive characteristic of the current situation is the steady expansion and tightening of the web of interdependence. Management of interdependence has become indispensable for world order, particularly given its dual character: Intensive interaction between societies at various levels is essential for economic well-being, but it produces or threatens mutual interference across national frontiers, interference which may jeopardize its very advantages. Interdependence complicates the management of the modern welfare state, transmitting problems from other countries and interfering with national priorities and policies. Conversely, the management of interdependence is inevitably complicated by conflicting national priorities. Moreover, current arrangements are severely criticized by many developing countries, which demand a greater say in international decision-making and a more equitable sharing of benefits from the world economy.

"The requisite cooperation for both the short and long term must be based on the shared conviction that it maximizes overall gain and increases the welfare of all those involved. Such cooperation faces major obstacles, however, which a realistic strategy must take into account: the desire for national autonomy, the impact of domestic politics, disparities in conditions among countries, and the sheer number of countries.

A Broad Strategy for Management of Interdependence

"What principles should guide the trilateral countries in their approach to management of our increasingly interdependent world? With its numerous complexities and uncertainties, the temptation will be strong to adopt a completely pragmatic approach; in short, to 'play it by ear.' The trilateral countries should surmount this limited view and have in mind a broad strategy for the management of interdependence. At the same time, however, large-scale detailed blueprints for action are too ambitious at present and likely to lead to no action." (New York: *The Trilateral Commission*, 1977, p. vii.)

Management of Interdependence Indispensable for World Order

From the trilateral viewpoint "management of interdependence has become indispensable for world order." (*Ibid.*) In other words, besides the erection or renovation of international institutions, one of the greatest dilemmas facing the global architects of today is governance of the emerging system.

The 1980s Project of the Council on Foreign Relations

One of the most ambitious projects on "governance" in the western world was undertaken by the Council on Foreign Relations in the form of its "1980s Project." The purpose of the project was to explore the nature of political, economic and social arrangements among nations that would be desirable during the 1980s and 1990s.

Council on Foreign Relations Monograph on Management of Interdependence

One of the forerunner steps in the 1980s Project was the Working Group on International Order, which met under the auspices of the Council during the period of October 1971 to June 1973. The Chairman of the Working Group on International Order was Miriam Camps. In 1974 the Council published a monograph by her entitled "The Management of Interdependence: A Preliminary View" as part of a series of Council Papers on International Affairs. Richard H. Ullman, writing in the preface to Camps's monograph, stated:

"For the Council on Foreign Relations, Mrs. Camps's paper is an important first publishing step in, and a catalyst for, what promises to be a long and searching

enquiry into the prospective international environment of the 1980s and the policy choices that will face the United States and other societies." (Preface. New York: Council on Foreign Relations, 1974.)

Nudging Things toward a Particular Kind of International System

Miriam Camps begins her monograph with these words:

"The approach of this essay is deliberately different. In it I have tried to look at the kind of international system toward which we should be seeking to nudge things....

"It is not possible to see very far in to the future and this section makes no claim to wisdom about the year 2000. But some current trends can safely be extrapolated for a decade or so....

Western Europe Expected to Become the Dominant Economic Power

"We live and seem likely to continue to live in a multipolar world, but the poles, or power centers, are not comparable, nor are the relationships between the major centers of power symmetrical. The pentagon is a misleading symbol. The two superpowers, the United States and the Soviet Union, are still dominant and are likely to continue to be so in the nuclear field, despite the probability of some increase in the nuclear capability of China and very likely in that of Western Europe, and some further nuclear proliferation (India, almost certainly; Japan, less certainly, but perhaps). Economic power is, however, distributed very differently from military power. The United States remains at the apex of the 'golden triangle' – itself, Western Europe, Japan. But Western Europe, as it consolidates, will become a much more equal weight in economic balance; and in certain aspects of economic power it will, when it can effectively organize itself, be the dominant power. In some regions of the world, local powers (e.g., India, Indonesia, Brazil) seem likely to become relatively more important than any, or all, of the five major powers.

Structure of Power Varies with Issue-Area

"Not only has the rigid simplicity of the bipolar world given way to a much more fluid and complicated pattern in which the structure of power varies with the issue-area or chessboard – to use Stanley Hoffmann's phrase – and with the region, but also the units or actors on the several chessboards are an increasingly heterogeneous lot. The main actors, the nation states, are far more numerous than they were when the basic thinking about postwar 'structure' was done in the late 1940s. And they are so dissimilar in size, population, wealth, stage of development, culture, form of organization, effective sovereignty, that there are fewer and fewer respects in which these entities can sensibly be regarded as like quantities in the system. The never very homogeneous category of states now

commonly referred to as the LDCs, or less developed countries, is becoming markedly more disparate. 'Less developed' no longer necessarily corresponds with 'poor' (Saudi Arabia and other major oil-producing countries being the most obvious examples of spectacularly rich LDCs) and other developing countries (mainly some of the Latin American countries) are now moving into a new intermediate category. Nor is there any longer an identifiable 'unaligned Third World,' if, indeed, there ever was one.

"Moreover, although for most purposes the nation states are likely to remain the prime actors, they are not the only significant actors. The most obvious and familiar examples are the multinational enterprises. Raymond Vernon has estimated that the branches and subsidiaries owned or managed by large enterprises outside their own countries may now involve \$200 billion, or more, of assets.

Regional and Global Organizations to Increase in Power at the Expense of the Nation-States

"We do not yet understand the implications of this development for the role of the nation state. Nor have we fully appreciated the way other transnational links, such as those among professional associations (airline pilots, monetary economists, or nuclear physicists), foster new allegiances and thus limit the choices of governments. A few intergovernmental organizations (e.g., the World Bank or IBRD) already play a role as quasi-independent actors. As discussed below, organizations at both the regional and global level seem likely to increase in power at the expense of the nation states. Today the European Community both enhances and erodes the power of its constituent member states. But as time goes on, more power can be expected to shift to the European level.

Government Intervention in Economic Life Not Apt to Diminish

"Although today one is struck by the force of nationalism almost everywhere, the nationalism in the developed countries has an overripe smell to it, suggesting that it is, in part at least, a reaction to the fact of greater interdependence, to the loss of effective autonomy in many fields, and to the increasing remoteness of the effective level of decision-making. Not only has nationalism – which at the end of the Second World War seemed on the wane in the more highly developed countries, caught a new grip on life, but there is also a new vociferousness to ethnic loyalties at the subnational level, e.g., Flemings, Bretons, Welsh. Government intervention in economic life is not apt to diminish. But as some functions are pushed to higher levels (European or global) when, as in monetary matters, the national span of control is not adequate, other functions may be pushed down to local levels to try to re-engage the individual in the decision-making process and to counter the trend toward apathy and opting out of the political process.

The Nation-State Seems Likely to Become a Somewhat Less Dominant Level of Decision-Making

"Thus, especially in the developed countries, the nation seems likely to become a somewhat less dominant level of decision-making, eroded from both above and below, and a somewhat less important focal point of loyalties – increasingly challenged by new transnational attachments of various kinds, particularly among specialist groups and elites, and by the apolitical globalism of a highly educated and mobile generation of young people....

Defining the Kind of International Order Under Development

"One way of defining the kind of international order we should be trying to bring about is by describing the conditions that should exist or the processes that should be in train. What should be happening, or not happening? Given the diversity of values between societies, is it, in fact, possible to list characteristics that both satisfy our own views and command a wide enough consensus to serve as useful guideposts?

Agreeing Upon Conditions Desired in an Acceptable World Order

"There are a few absolute conditions – things that must not be allowed to happen – that probably would be widely agreed upon. Thus there would be little disagreement on the following *conditions* of an acceptable order:

"No nuclear catastrophe

"No major war, defined as any nuclear war or any war involving direct conflict between two or more of the five major centers of power: the United States, the Soviet Union, China,

Japan, Western Europe

"No major ecological disaster

"No widespread economic breakdown

"No genocide

"No nuclear blackmail.

Processes Which Are Likely to Take Place

"In addition to these six conditions which an acceptable order should satisfy, it would probably be widely agreed that the following *processes* should be taking place:

"Abatement of the arms race; no, or little, nuclear proliferation; progress toward disarmament

"Substitution of peaceful processes of change for violent processes of change

"Substitution of peaceful settlement of disputes for violent settlement of disputes

"More efficient use of global resources, both human and material ('efficient,' as used here,

explicitly includes social and ecological as well as economic criteria)

"Improvement in economic welfare

"Improvement in quality of life

"Some narrowing of the disparities in wealth as between countries

"Some narrowing of the disparities in power as between states

"Protection and advancement of human rights, including the right to individual and collective

diversity and autonomy....

Difficulty in Achieving and Sustaining an International Order

"It will not be easy to achieve and sustain an international order characterized by these conditions and processes in the world we seem destined to live in for the next few decades, with its new interdependencies, cross-cutting relationships, wide variety of actors, and multiple and shifting loyalties. It will frequently be hard simply to see what is actually happening, how decisions are made, where real power resides, how decisions taken or not taken in one area of policy affect developments in other areas of policy. This complicated, messy world system will have some advantages. It will have a tough flexibility and be harder for any single power, or group of powers, to manipulate than would a simpler, more easily understood, more hierarchical system. But 'managing' interrelationships between states and other transnational actors will be immensely difficult.

Areas Requiring Some Form of International Management

"This essay look[s] at some of the problems of 'management' we face and at some of the relationships it seems to me to be desirable to encourage in four major areas: security, management of the international economy, development, and management and conservation of natural resources, including the environment, space, the oceans and the seabed. These are not the only areas requiring some form

of international management, but they seem to me to be the main ones. Institutional needs obviously cannot be considered apart from the existing pattern of overall relationships among states, or the pattern one wants to encourage, or the purposes one is seeking to achieve by promoting some processes and modifying or arresting others. Nor, as will become plain, can the process-relationships-institutions in any of these four broad areas be considered in isolation from their counterparts in the other areas...." ("The Management of Interdependence: A Preliminary View," pp. 7, 11-13, 14-16, 17, 19-20.)

The International Economy Requires Collective Management

Management of the international economy, according to Miriam Camps: "...calls for a great deal of highly sophisticated collective management reaching well down into the domestic area, for it is here that 'interdependence' has gone the furthest and is creating the most serious problems. The 'real' world of banking and industry has joined the economies of the highly industrialized countries; rules and organizations exist but governments have yet to adapt them or to create new instruments of supervision and control to match their objective interdependence." (*Ibid.*, pp. 90-91.)

Atlantic Council Undertakes Special Study on the Management of Interdependence

On June 19, 1974, the Board of Directors of the Atlantic Council of the United States, located in Washington, D.C., recommended that the Council also undertake a study on the Management of Interdependence. Shortly thereafter the Council published "Beyond Diplomacy," an Interim Report of the Council's Special Committee on Intergovernmental Organization and Reorganization. The Special Committee reported that it was their belief that "the development of effective means for the joint exercise of sovereignty by key nations with respect to common problems is a basic need of today's and tomorrow's world...." (*Policy Papers*, The Atlantic Council of the United States, Washington, D.C., no date, p. iii.)

Interdependence is an International Fact

The preface to the Interim Report states:

"As the United States completes its two-hundredth year of national independence, it is fitting to take stock of its international relations in today's interdependent world – a world vastly different from that of 1776. Interdependence, whether we like it or not, is the overriding international fact of the last half of the 20th Century. Effective management of that interdependence is increasingly crucial to the security and prosperity of our own people and, indeed, of all peoples.

Traditional Pattern of Diplomacy Obsolete

"The traditional pattern of diplomacy conducted solely on bilateral lines between sovereigns by Ambassadors and Foreign Offices is an obsolescent as the sailing vessel. In the 20th Century it is being progressively replaced by, or used to reinforce, multilateral efforts to harmonize governmental policy and action on major matters of common human or national concern.

"The government of a sovereign nation-state has the authority to legislate within its own frontiers but it has lost the ability to achieve many of its important national goals and the aspirations of its peoples solely by its own isolated efforts.

Need to Adapt the Nation-State to the Space Age

"It is more than a coincidence that the nation-state replaced feudalism shortly after the introduction of gunpowder into the West. The world is currently groping for means of adapting the nation-state to the requirements of the nuclear and space age on a crowded, urbanized and industrialized planet, shrunken in size by communication and transportation, and in ferment from the scientific, technological, communications and information explosions of recent years.

Exercise of Sovereignty Jointly with Other Nations

"Most of us were taught in our formative years that the nation-state was the highest form of political organization. 'National sovereignty' is a powerful political slogan and governments and peoples have difficulty in realizing that many of their goals can be achieved only through the exercise of sovereignty jointly with other nations." (*Ibid.*)

Improving Means of Intergovernmental Coordination

The Interim Report outlined the following areas in which new and improved means of "Intergovernmental Coordination" were needed: (1) security, (2) the International Monetary System and the IMF, (3) trade, (4) energy, (5) population, (6) food, (7) raw materials, (8) environment, (9) oceans and (10) outer space.

Common Decision-Making Among Nations

Chapter I of the Interim Report, entitled "Interdependence," states that joint exercise of sovereignty by similar nations is a must and calls for common decision-making among nations in a new world order. This chapter diagrams the strategy of interdependence as follows:

"The late 40s and the 50's produced an unprecedented wave of experiments in new forms of intergovernmental cooperation, primarily in Europe, Australia and New Zealand joining in. Yet science and technology, population, urbanization and

industrialization, communications, transportation, tourism, trade and investment, were moving faster than cooperative governmental efforts to deal with them. The web of interdependence was being woven at an accelerating pace. Private enterprise and individuals, especially the young, forged ahead in thinking and operating across national barriers. National governments understandably attached more importance to those barriers.

Central Tasks of Societies Transcend National Borders

"The world is on the move, and the pace is accelerating. It is moving into an era in which many of the tasks central to societies in search of greater realization of basic human values increasingly transcend national borders. It is becoming more and more evident that no government in this interdependent world can discharge many of its responsibilities to its peoples solely by its own efforts.

National Sovereignty – a Hollow Concern

"It is often suggested that we should not 'compromise' our sovereignty by undertaking commitments with foreign nations. Throughout history 'sovereign' nations have done so voluntarily through the treaty process. In today's world of high interdependence this is indeed a hollow concern. National sovereignty entails the power to legislate within the nation's borders and to enter into or withdraw from agreements with other nations. It does not and cannot by any means convey the power to achieve some major national and security objectives in splendid isolation. Today, attainment of our economic and security objectives depends closely on our links with other nations and with the world economy; there is a functional necessity for the joint exercise of sovereignty with other, like-minded, or similarly situated nations. International collaboration sometimes does restrict a nation's freedom of action in the short run. But by helping to obtain the nation's objectives, such as providing a high and rising standard of living or a population secure in its enjoyment of its values, it enlarges the country's freedom of action and hence its true independence.

Existing Intergovernmental Machinery Inadequate

"It is also clear that existing intergovernmental machinery is inadequate to enable national governments to pool their efforts to achieve for their peoples what they cannot do alone....

"Yet certain problems, notably in the fields of security and economics, unquestionably require coordinated policy and action through the joint exercise of sovereignty by national governments...;

"The World today and for a long time to come faces the pressing task of determining the scope, extent, nature and desirability of international

intergovernmental authority adequate to deal with the problems which transcend national frontiers....

"A failure to harmonize the exercise of sovereignties to meet the problems that are beyond purely national solutions is to permit the erosion and deterioration by disuse of the national prerogative of pooling national efforts to achieve common goals....

Collective Decision-Making Among Western Nations

"The increasing interdependence of the nations, economies and peoples of Western Europe, North America, Japan, and Australia is an important basis for world order. Their shared values, similar patterns of political and economic organization, and their conduct and common objectives are sufficiently compatible to warrant a high degree of consultation and collective or coordinated decision-making, whether in forums of a global nature such as the IMF or the World Bank, or on a more limited scale, such as the OECD and NATO. If collective action cannot be engendered between North America, Japan, Australia, and Western Europe, it is unlikely to develop on any effective global scale that harmonizes the interests of various groups and regions.

Overall Objective – an Open Community of Nations

"Yet the overall objective of this coordination should be an open community of nations dedicated to a systematic and orderly utilization of international political and economic policies for the common good.

Leadership of the U.S. Essential to Collective Management of Intergovernmental Arrangements

"It need not be argued that if this collective approach among the democratic industrialized nations does not receive the full participation and leadership of the United States it is not likely to be undertaken at all.

"This raises a different but related question from the one to which this Interim Report is mainly addressed. That underlying question is the willingness and capability of the United States government to participate effectively in the multilateral diplomacy that is essential to the collective or coordinated management of intergovernmental arrangements that involve many countries....

Constitutional Separation of Power Hinderance to Conduct of Foreign Policy

"There are three aspects of it to be considered:

"One is the development of practices and procedures that reduce the difficulties for the conduct of foreign policy that are inherent in our Constitutional separation

of powers between the Executive and Congress, particularly when that foreign policy involves an increasing degree of collaborative decision-making between sovereign nations on a multilateral level.

Meshing of National and International Decision-Making Process Needed

"A second is more effective meshing of the national and international decision-making process, including the development and improvement within the Executive Branch of an organization structure and procedures conducive to more effective participation in multinational organizations. This is essential in those increasing numbers of areas where action by one nation, or purely bilateral diplomacy, is inadequate and continuous multilateral decision-making is necessary if common national interests are to be ascertained, attained and preserved.

Need for New Intergovernmental Organizations and Procedures

"A third is improvement in the organizational structure and procedures of intergovernmental institutions to provide more effective service in advancing the common interests of the participating nations." (*Ibid.*, pp. 3-4, 7-8, 9-11.)

Convergence of the Trilateral Nations' Economies

Two comments that were added to the Atlantic Council Interim Report are of special significance. In the first comment Sir Eric Wyndham-White of Geneva, former Director General of the General Agreement on Tariffs and Trade, stated:

"In brutal fact there are three centers of economic and financial power whose decisions and policies are a determinant of the world's economic well-being. I refer clearly to North America, Europe and Japan. (I deliberately leave aside for the moment the recent and to my mind somewhat exaggerated accretion of wealth of the petroleum producers.) The forceful publications of the Trilateral Commission, as well as of other organizations draw the consequences of this state of affairs. In effect, if the USA, Europe, and Japan achieve convergence in their economic policies there will be little difficulty in devising new institutions or adapting existing ones where their combined power will be effective since nothing construction can be done without them. For example, what I have chosen to treat as a marginal problem – the petro-dollars-I am convinced that a firm triple alliance would rapidly find persuasive means to integrate these funds into the international financial system in a constructive fashion.

Need to Talk Less About National Sovereignty

"Energy, environment, technology, food and raw material resources and the use of the sea and the stratosphere will all produce new and knotty problems of international management. But again the first step is to recognize that these are problems which transcend national boundaries and national sovereignties. And let

us talk less about the latter. Every international agreement which amounts to anything involves some limitation of national sovereignty and interdependence will in the long run relegate this over-glamorized term to its relatively minor order of importance.

Ad Hoc Negotiations Should Be Limited to Those Concerned

"With regard to these problems, I tend to come down on the side of 'ad hockery' in the form of taking international action in the most appropriate international forum, but with the participation only of those who demonstrate and have a practical interest and the possibility of constructive contribution." (*Ibid.*, p. 83.)

Major Public Educational Effort to Convince the World of the Need to Converge Policies

Sir Eric Wyndham-White continues:

"All of this leads me to the key conclusion that what is important is the 'gap.' The gap is the recognition by governments and still more of intelligent people everywhere – and perhaps a major public information and educational effort would be the best result of the present exercise – that the basic problems of their nations, economies and societies depend upon the need for converging policies which are in fact imposed by an interdependent world. But somebody has to start the ball rolling.

Need for Continuous Consultation Among the Trilateral World

"Here, I return to the tripartite approach as a started. To be specific, the Big Three should initiate preparations for a summit meeting or rather a series of summit meetings which should review the whole gamut of world problems and pledge themselves to address themselves to these problems as matters of community interest and not of rivalry. The logical conclusion would be the initiation of a process of continuous consultation designed to ensure that their representatives in the existing form present a common front instead of seeking individual advantage, and using the indispensable machinery of multilateral diplomacy to attract blocs of supporters for differing points of view. I hasten to admit that this is an arbitrary, if sophisticated Congress of Vienna approach to which I see no alternative.

USSR May Eventually Join Trilateral Directorate

"Perhaps I would be kinder to my concept if I assimilated it more to the remarkable combined institutions through which the Allies pooled their resources to destroy the menace of Nazism. In due course, the USSR may see advantages in joining such a directorate. She should be encouraged to do so, provided that the conversion is seen to be sincere and not merely a Trojan horse to destroy the

system. There is one ultimate safeguard. A door opens inwards and outwards." (*Ibid.*, p. 84.)

Interdependence as a Central Fact of International Life

In the second additional comment Nathaniel Samuels, Chairman of the Louis Dreyfus Corporation and former Under-Secretary of State for Economic Affairs, stated:

"The international order that was created out of World War II was responsive to the immediate problems brought on by the War and to those traumatic experiences that preceded it in the 20s and 30s. Key problems, and their major institutional responses, were military security (NATO), reconstruction (OEEC – OECD, the World Bank), a liberal trade and a stable payments systems which would avoid deflation and unemployment (GATT and IMF), and a universal political framework consistent with 'one world' aspirations (UN). No one can doubt that interdependence as a central fact of international life has been growing since these organizations were created, as the Atlantic Council's Interim Report so brilliantly points out....

International Energy Agency Only a Forerunner of Other New Organizations

"There is good reason to think that international responses to the newer problems, such as resources supply and markets, oceans and outer space management, and arms proliferation will grow, not out of academic exercises, but out of the dynamics of differently perceived interests. The formation of OPEC by producing countries in the developing world has, for example, precipitated the formation of the International Energy Agency in the industrialized world, and this is probably only the forerunner of other new organizations which will arise out of the growing confrontation between the developing and the developed world about the nature of the economic order.

Floating Exchange Rates

"The post-World War II security and economic institutions will, of course, continue to adapt to new problems and circumstances. The security concept, as envisaged in NATO, obviously needs a realignment that continues to baffle us. The IMF, for example, provided the framework for a fixed rate exchange system, sanctified by the Bretton Woods Agreement, but now must adapt to a system in which exchange rates are not fixed but float. In fact, floating (including managed floating) is a means whereby national governments can 'protect' themselves against interdependence by better pursuing national objectives. And so it goes with other institutions.

Using Pragmatic Techniques in Dealing with International Problems

"There is a tendency at present to fragment rather than to consolidate organizational efforts to deal with certain international problems. We are tending at present to deal with energy problems, oceans policy, outer space, financial assistance facilities, inflation and recession, and perhaps before long non-oil commodity problems, as much in new forums as in existing ones. If we are to deal effectively with these complex tasks, we must be prepared to be pragmatic about techniques, using bilateral as well as multilateral approaches, regional as well as universal organizations and ad hoc forums as well as constituted organizations. It would be unwise to get ourselves hung up ideologically about international organizational procedures.

Harmonization of Decision-Making Process Among Top Political Leaders

"Perhaps the most needed element in the international system at present is engagement of the top political level of the industrialized countries in the harmonization and decision-making process. The stability we seek internationally rests, in the last analysis, on the ability and willingness of national states to harmonize their internal imperatives with international necessities. This will probably best be done by arrangements for harmonization of policies at the Ministerial political level largely on an ad hoc basis.

Likelihood of Mismanagement of Interdependence

"Interdependence is more likely to be mismanaged than managed if we do not leave sufficient room for flexible and ad hoc responses to problems with which we have only limited or no experience, and there is as much danger in being over-organized as in being under-organized.

Opposing Views on How the World Should Be Organized

"It is likely that the growing gulf in perceptions between the economically less developed and the more developed countries on how the world should be organized will overshadow international life and institutions during the years ahead. International institutions will reflect this division and the several subdivisions that are emerging in these two worlds. The existing institutions will undergo pressures to adapt their structures to new circumstances and changing power balances, and new institutions will be created, depending on the nature of the problems and how difficult it may be to shift the weight of power within the older institutions....

High Degree of Institutional Flexibility Needed

"Interdependence is a fact of life, but we would, it seems to me, be well advised to maintain a high degree of institutional flexibility in trying to manage it constructively." (*Ibid.*, pp. 85, 86-87.)

Meshing of National and International Decision-Making Processes

The concluding comments of the Interim Report sketch out the following blueprint for "governance" of the new world order or global community of nations which is slowly emerging:

"The closer the interrelationship between the national and international decision-making processes the better. This entails meshing at all stages and at all levels. It entails initiative in proposing intergovernmental discussion of problems or situations at early stages. It entails close relationships between international staffs and national delegations, and between the staffs and regular or *ad hoc* meetings of policy-making and enforcing officials from the respective capitals, from the highest levels down through the various levels of functional authority.

Extent to Which International Management Can Be Acceptable Deserves Examination

"The extent to which international 'management' can be acceptable to governments deserves examination. In corporate structure there are three levels: ownership (so diffuse as usually to be meaningless), control (by the Board of Directors) and management (individuals selected and advanced over the years for their competence in administration). In national political terms this corresponds to the public, the Legislative and the Executive Branches. In the experiment of the 'European' organizations the 'management' was to be vested in the Commission and the 'control' in the Council of Ministers. In practice the control largely stultified management, even with respect to its constitutionally authorized power of initiative. Yet certainly effective international organization requires fixing the power to initiate, plan and recommend in some one authority or institution." (*Ibid.*, pp. 78-79.)

Construction of World Order to First Begin in Non-Military Areas

According to Miriam Camps, the Atlantic Council and others, the emerging new world order is to be first constructed in non-military areas. This view is also shared by Kingman Brewster, Jr. Writing in *Foreign Affairs* in 1972 he stated:

"Although the prophets of world government expected their cathedral to be founded on the rock of superior collective military force, it is more likely that supra-national institutions with some of the attributes of governmental authority will first emerge in nonmilitary areas. Control and management of worldwide

satellite communications; prohibitions and requirements to diminish pollution; the regulation of international capital, commercial and financial transactions – all of these areas are already demanding a regimen which no single nation can provide on its own." (Vol. 50, no. 3, Apr. 1972, p. 410.)

House of World Order to Be Built from Bottom Up

Richard Gardner, former Ambassador to Italy, writing in an article entitled "The Hard Road to World Order," collaborates with Brewster and states that the "new world order" is being built from the bottom up.

"If instant world government, Charter review, and a greatly strengthened International Court do not provide the answers, what hope for progress is there? The answer will not satisfy those who seek simple solutions to complex problems, but it comes down essentially to this: The Hope for the foreseeable future lies, not in building up a few ambitious central institutions of universal membership and general jurisdiction as we envisaged at the end of the last war, but rather in the much more decentralized, disorderly and pragmatic process of inventing or adapting institutions of limited jurisdiction and selected membership to deal with specific problems on a case-by-case basis, as the necessity for cooperation is perceived by the relevant nations. Such institutions of limited jurisdiction will have a better chance of doing what must be done to make a 'rule of law' possible among nations – providing methods for changing the law and enforcing it as it changes and developing the perception of common interests that is the prerequisite for successful cooperation.

"In short, the 'house of world order' will have to be built from the bottom up rather than from the top down. It will look like a great 'booming, buzzing confusion,' to sue William James' famous description of reality, but an end run around national sovereignty, eroding it piece by piece, will accomplish much more than the old-fashioned frontal assault." (*Foreign Affairs*, vol. 52, no. 3, Apr. 1974, p. 558.)

An Extraordinary Opportunity to Achieve a Global Society

In a speech before a World Affairs Council Group, former Secretary of State Henry Kissinger stated:

"I believe that with all the dislocations we are now experiencing there exists an extraordinary opportunity to achieve for the first time in history a truly global society, carried by the principle of interdependence." (*International Educational Cultural Exchange*, vol. 3, no. 1, Summer 1976, p. 35.)

The Atlantic Institute for International Affairs

It is obvious, as is seen from the content of the above quoted material, that a "global society, carried by the principle of interdependence," is in the developmental stage. It is also apparent that many groups have been working for a "community of nations." One of the most influential international organizations involved in this effort is the Atlantic Institute for International Affairs located in Paris.

The Atlantic Institute and the Trilateral Commission Considered a Merger

At one time, the Atlantic Institute seriously considered a merger with the Trilateral Commission. Concerning this possible merger John M. Goshko, a *Washington Post* staff writer noted in 1978:

"The Trilateral Commission – the David Rockefeller-founded group many of whose members moved into influential positions in the Carter administration – is considering a merger with another heavy-weight, private organization of prominent international movers and shakers.

Atlantic Institute – Well Known in High Circles

"The commission's prospective merger partner is the Paris-based Atlantic Institute, an organization that isn't exactly a household name in the circles where most people move.

"But, in that special arena where global thinkers, multinational business executives and politicians rub against each other in an effort to influence world events, the move has potentially large significance. Its impact is roughly comparable to the effect in business circles of, say General Motors joining forces with Volkswagen....

"President Carter was a member. So, too, was Vice President Mondale; and Carter's national security advisor, Zbigniew Brzezinski, had been a director of the commission.

"Other Trilateralists in the administration include Secretary of State Cyrus R. Vance, Treasury Secretary W. Michael Blumenthal, Defense Secretary Harold Brown, U.N. Ambassador Andrew Young, Deputy Secretary of State Warren Christopher and Under Secretary of State Richard N. Cooper....

Merger is Not Certain

"What's more, [George] Franklin [Coordinator of the Trilateral Commission] stressed, a merger is by no means certain...

Trilateral Commission and the Atlantic Institute Both Remarkably Alike

"As he points out, both organizations are remarkably alike in many important respects. The Trilateral Commission, which was founded by David Rockefeller in 1973, has been described as a 'sophisticated establishment Rotary Club' and a 'floating seminar for business and academic and political leaders.'

"Its members are mainly establishment figures recruited from North America, Western Europe and Japan. Every nine months or so, they get together on one continent or another to tilt verbally at world problems; and the commission hires academic experts to turn out weighty studies on the subjects that interest the members.

Overlap of Membership

"The Atlantic Institute is, in many key aspects, an almost interchangeable organization. It is directed by Martin Hillenbrand, former U.S. ambassador to West Germany, and, as one Trilateral staffer notes, 'At any given time, there's probably an overlapping group of 10 to 20 individuals who hold membership in both.'

Main Difference Between the Two Groups

"However, the two groups are not identical. The Trilateral Commission tries to suggest policy options on a variety of topics, while the Atlantic Institute is geared more toward instituting and subsidizing research on economic problems.

"Despite a common supposition that the commission is subsidized by the Rockefeller family, both organizations actually obtain the bulk of their operating funds from tax-exempt foundations and corporate gifts. Inevitably, that means competition for the available money; and, as Franklin noted, that in turn, is a spur to merger." (*The Washington Post*, January 18, 1978.)

Purpose of the Atlantic Institute

The purpose of the Atlantic Institute is described as follows in one of its official documents:

"At a time when ever-greater areas of human activity have become subject to state control and financing, the role of the private and independent center of research, discussion and influence takes on increasing importance. The Atlantic Institute for International Affairs in Paris is such a center maintaining ties with similar organizations in many other countries. Originally conceived as sort of a public arm of NATO in 1961, it quickly grew beyond that into a center of general intellectual activity and of significant policy-oriented research on the problems which the advanced industrial societies of Europe, North America and the Pacific Basin share with one another.

Permitting and Encouraging the Free Exchange of Ideas

"One of the fundamental assumptions of the democratic societies, by and large identified with the countries associated with the OECD, is that the maintenance of those societies requires an intellectual climate permitting and encouraging the free exchange of ideas as well as the toleration of opposing points of view which are not destructive of the basic order within a pluralistic framework. At the same time, there must be continuing zealous search for systematic knowledge and truth using the tools of scientific analysis without fear of governmental controls. This is what distinguishes those societies from the totalitarian societies of Eastern Europe and elsewhere in the world.

A Truly International Institute

"As a truly international Institute drawing support from the OECD world, and with a Board of Governors representing most of the OECD countries, the Atlantic Institute for International Affairs is in many ways unique. Its objectives are to provide timely, reasoned analysis, to promote informed discussion and to make practical recommendations on the solution of problems common to the advanced industrial countries of the world in their relations among themselves, with developing countries and with the Communist countries.

An Ongoing Program of Policy-Oriented Research

"While primarily a research organization with a major ongoing program of policy-oriented research the Institute thus attempts as well to have practical input into policy discussions in accordance with its basic philosophy, in the following ways: (1) through publication and distribution of the results of major research projects, usually in the form of books, and through the publication of the *Atlantic Papers* series and occasional papers; (2) through its network of influential members of its Board of Governors, many of whom hold leading positions in the business or banking worlds or have, at one time or another, held high governmental office, or will hold high governmental office (the practice is to resign upon assuming an executive position in government; four former members of the Board joined the Carter Government; the present Prime Minister of Ireland was a member of the Board; as well as several other ministerial-level present members of governments). The Institute's communication network is further extended through the executives of the Participating Member firms who support the Institute and are brought into contact with its programs. Many of these maintain contact with the Institute on visits to Paris; (3) through the semi-annual meetings of the Board of Governors and the Participating Member firms which are designed to promote informed discussion on topics of current importance; (4) through the seminar program of the Institute, including a special program for the press, which has achieved considerable attention not only in the Paris area but also in other countries from which participants are brought. (The results of these meetings are

disseminated to members of the Board of Governors and, as appropriate, to Participating Member firms.); (5) through the activities of the Political and Economic Committees of the Atlantic Institute which maintain close relations with NATO, the European Community and the OECD. Situated in Paris the Institute as such is in a favorable position to maintain close contact almost on a day-to-day basis with the OECD, the Secretary General of which, Emile van Lennep, is an active member of the Institute's Board." ("Statement of Purpose," Atlantic Institute for International Affairs, Paris, no date, pp. 1-2.)

An Overview of the Movement Toward Global Governance

It is apparent that the movement toward the creation of a global system of governance is proceeding under the guidance of such influential institutions as the Atlantic Institute for International Affairs in Paris, the Trilateral Commission and Council on Foreign Relations in New York City and the Atlantic Council of the United States in Washington, D. C. The construction of this system has taken many decades. In the report, "Beyond Diplomacy." issued by the Atlantic Council of the United States, there is a section which outlines the history of the movement. It is entitled, "Lessons From Experience." It provides the reader with an excellent summary of the development of global decision-making and global institutions which transcend the nation-state and national sovereignty. The report stated:

The Shortcomings of the League of Nations

"The shortcomings of the League of Nations and of its successor, The United Nations, were clearly foreseen by General Jan Smuts in his famous memorandum of December 16, 1918 commenting on a draft of the League Covenant:

"The scheme which I have seen, and which brings representatives of all the independent states of the world together in one conference to discuss the most thorny of all subjects and requires that their decisions to be binding must be unanimous, is from that point of view not worth discussion. It means that there never will be any decision issuing from the league; that nobody will take the league seriously; that it will not even serve as camouflage; that it will soon be dead and buried, leaving the world worse than it found it.'

"That Smuts was not being merely cynical in his foresight is shown by the foreword to that memorandum, in which he stated:

"If the league is ever to be a success it will have to occupy a much greater position and perform many other functions besides those ordinarily assigned to it. Peace and war are resultants of many complex forces, and those forces will have to be gripped at an earlier stage of their growth if peace is to be effectively maintained.'

"And later:

"War is a symptom of deep-seated evils; it is a disease or growth out of social and political conditions. While these conditions remain unaltered, it is vain to expect any good from new institutions superimposed on those conditions.'

The Refusal of the U.S. Senate to Participate in the League of Nations

"The weaknesses which Smuts foresaw were compounded by one political development not the fault of the League or of its Covenant, the refusal of the Senate to permit U.S. participation, even safeguarded by the requirement for unanimity. Considering the generally isolationist nature of American public opinion during the 1920's, it is not at all certain that U.S. membership would have made a great difference.

The Development of New and Useful Functions

"Even without U.S. membership the League did develop certain new and useful functions. Its Finance Committee helped to restore order in a number of European countries; its Labor Committee plowed new ground in setting patterns for human rights; its staff launched new economic investigations and its forum became a platform in the struggle for peaceful settlement. Individual Americans served effectively in all these functions. But the vacant official chair and their lack of authority doomed it to failure in its major responsibilities.

The Dream of a New World Order

"It was only in the functional field that part of the 1919 dream of a new world order survived. The International Labor Organization, established in association with the League of the Treaty of Versailles, combined representatives of governments, workers and employees in the drafting of conventions designed to raise labor standards. No member is obligated to ratify these conventions but each is obligated to submit them to its own constitutionally competent authorities for consideration within a year of their adoption. The U.S. became a member in 1938 while still treating the League at arm's length. The ILO survived the League's demise and became a specialized agency of the U.N.

Central Bankers Gather Each Month at the Bank for International Settlements

"As the League withered and disintegrated, no other significant experiments in intergovernmental coordination were attempted in the inter-war years other than the establishment of the Bank for International Settlements in 1930, for the specific purpose of aiding the settlement of German reparations. The BIS profited from being a small group of key Western European Finance Ministers and Central Bankers, homogeneous and powerful and informal in its operations. It was said, as much in truth as in jest, that the greatest value of the BIS was getting the central bankers of Europe together for lunch once a month. Actually it was normally for a

long weekend. The informality of these meetings, and contacts between meetings, made possible a free exchange of ideas and often led to cooperation as to policies and programs. The Bank survived World War II and is still functioning. In fact, in April 1975 when the agreement establishing the OECD Financial Support Fund (the '\$25 billion safety net') the Bank was selected by the Fund as its agent for administrative purposes and to arrange market borrowings.

An Unprecedented Pooling of Decision Making Authority

"The challenge of World War II was recognized by the peoples of all the allied countries, including Americans after Pearl Harbor, as new in magnitude and in peril – "total war." It produced unprecedented pooling of decision-making authority. The process was facilitated by the fact that the European allies were represented by governments-in-exile and the British. Dominions were closely constitutionally linked to the United Kingdom and generally acquiesced in decisions which the latter reached jointly with the U.S. In effect there were only two in the cockpit, flying in the face of mortal danger. They had to succeed and they evolved the means of managing the effort necessary to do so.

Effective Central Decision-Making Authority

"There was effective central decision-making authority. Roosevelt and Churchill provided the supreme leadership. They met fairly frequently and were in constant contact by cable. It was not government by committee, it was a partnership of two Heads of Government, assisted by a number of Combined Boards with integrated staffs.

"Under the supreme direction of the two Heads of Government, the integrated allied conduct of World War II in both the military and civilian fields was handled on a functional basis. The Combined Chiefs of Staff gave overall direction for the military conduct of the war with an integrated staff in Washington and integrated commands and staffs in the field.

The Combined Boards Run World War II

"The non-military, or production and supply, side of the war was handled by the various Combined Boards. Their names, functions, and organizations were changed as the war progressed but the principal ones at the end were the Combined Raw Materials Board, the Combined Resources and Production Board, the Combined Food Board, the Combined Munitions Assignment Board and the Combined Shipping Board. Each had numerous subordinate committees and working groups in addition to its integrated staff.

"All of the Boards had concrete and urgent functional tasks to perform. Often they were competing with each other for resources, productive capacity, finished products and transportation. Arguments were functional rather than national;

regardless of nationality, it was generals against admirals, the military versus 'essential civilian supply,' the food people against the munitions people, and so on. Difficulties were rarely due to nationalist pressures; they were due to (1) inadequate integration of the Combine boards with the national agencies concerned, and (2) inadequate coordination between the work of the various Boards. Most problems were resolved at the working level, others were refined for higher level decision. Decisions were made and revised jointly and carried out by national authorities.

Membership of the Various Boards

"While the membership of the top Boards was limited to the U.S. and the U.K., membership in the subordinate bodies included representatives of other governments in accordance with their potential contributions to the war effort; i.e. Canada, Norway and the Netherlands were represented in various committees of the Shipping Board and all of the Dominions in those of the Food Board. Everyone was represented in some way, either as producers or, in most cases, as claimants, in the complex of the Munitions Assignment Board.

"Despite occasional complaints from American officials that resources were being pooled on a 'one rabbit-one horse' basis, and more serious ones by Allied officials that their governments were inadequately consulted concerning matters of major concern to them, the system worked.

Vast Change in Public Psychology

"Back of this effective organizational structure was the vast change in public psychology. World War I for the United States had lasted only a year and a half. Only a small percentage of American soldiers and sailors were actively engaged in combat. World War II was longer, bloodier, more devastating everywhere. The lesson of the meaning of War and Peace had enormous impact on the peoples of all the principal belligerents.

"It was this psychology which was carried over into the struggle for recovery and the struggle to give new meaning to international relations, new impetus to the effort to establish governmental machinery which could be useful tools to ensure 'Peace and Prosperity.'

"Several lessons can be drawn from this wartime experience.

"One is obviously that grave danger strips away a lot of inhibitions, nationalistic and otherwise, in the face of imperative need to get results.

"Another is equally obvious – that the smaller the number of nations participating in the final decision-making process the easier it is. This has the less obvious corollary that all others directly affected should have full opportunity to

expound their own positions, and have confidence that reasonable account is taken of their particular interests.

"Third, a large area of well-perceived common interest is an essential foundation for effective joint action.

"A fourth is that competent staffs of two or several nationalities dealing with a functional problem can and often do develop a functional rather than a national approach.

"A fifth is the need for close meshing between the operations of the intergovernmental agency and the relevant national ones.

"A sixth is the need for some effective authority to coordinate the work of the functional agencies.

"A seventh is the need to stimulate and mobilize the full force of private initiative and effort.

The Development of the United Nations

"The holocaust of World War II, culminating in the cataclysmic birth of the nuclear age, started a groping for new means of dealing in peacetime with problems which respect no national frontiers. Some lessons were learned from the weaknesses of the League of Nations.

"The drafters of the United Nations Charter were fully aware of the pitfalls of the requirement for unanimity. They were nevertheless made painfully aware that unless at least the U.S.S.R. and the U.S. were protected by it, neither would be a member and in effect there would be no U.N. So the veto power was retained in the Security Council for those two and for Britain, France and China, against the better judgment of practically all delegations.

The U.N. Achieves Universality

"The League had failed to achieve universality. The U.N. achieved it – to an extent far greater than anyone imagined or would have desired. The original membership of 52 nations has now passed 130. The basic principle of one nation one vote, meaning that the status of Mauritius in the organization is equal to that of the U.S. except in the Security Council, stretches the difference between theory and fact to near the breaking point.

"Some years ago, when the membership of the U.N. was considerably smaller and somewhat less heterogeneous than it is today, the U.S. and other advanced democratic nations sought to avoid the incubus of the veto by increasing the powers of the General Assembly through the 'Uniting for Peace' resolution.

Without wholly escaping the Scylla of the veto they slipped into the Charybdis of increasingly irresponsible decision-making by simple majorities on a one-nation-one vote basis that seriously weakens the organization as an instrument of intergovernmental cooperation.

"The increasingly heterogeneous membership, with many members short of trained manpower and the natural demand of all for some representation for their nations on the Secretariat, has naturally created major staffing problems.

The U.N. Has Served Several Important Purposes

"Yet the U.N. experience has served several important purposes. It has provided a forum for blowing off steam and for diplomatic contacts, more profitably informal and outside rather than in formal meetings, between responsible leaders of many countries.

"A strong Secretary General, Dag Hammarskjold, had the confidence even of opposing factions and the initiative to stretch the authority conferred by resolutions of the Security Council or the Assembly to the limit. Accordingly he could accomplish a good deal by his own personal leadership.

Creation of Peacekeeping Forces

"The U.N. has been successful in its efforts to secure agreement upon the creation of peacekeeping forces, and raised and maintained them with very considerable effect in a number of very difficult situations.

"Even more importantly, it has sought to come to grips with some of those 'complex forces,' 'deep seated evils,' and 'social and political conditions' which Snuts had in mind. The Economic and Social Council and the regional Economic Commissions for Europe, Latin America and the Far East have undertaken, albeit with limited success to deal with some of them.

Development of Specialized Agencies

"It is the 'specialized agencies' of the U.N. in various functional fields which have made the most progress toward at least ameliorating those 'deep seated evils' and improving the human condition. In addition to the ILO, the best known ones are the International Bank for Reconstruction and Development, the International Monetary Fund, the Food and Agriculture Organization, UNESCO and the World Health Organization.

Development of the IMF and World Bank

"While each of these 'specialized agencies' has made important contributions in its own field, the outstanding success stories are those of the International Bank for

Reconstruction and Development and the International Monetary Fund. Although possessed of a large and heterogeneous membership, now totalling 126, they have not had to deal with the thorny problems which U.S.S.R. membership would have caused. While the highest authority of the Bank and Fund is vested in the Board of Governors, consisting of the Finance Ministers of each Member, wide operational authority has been delegated by them to the Executive Directors, a board of 20 persons, many of the members of which cast the votes not only of their own government but of various other countries.

"They have also had the advantage of clear-cut operating responsibilities; in the case of the IBRD, economic and social development, and the case of the IMF, money and credit, foreign exchange, and payments imbalances. While the national interests and economic situations of the members vary widely there is at least a strong common interest in economic development, national solvency, credit worthiness and monetary stability, and a viable international monetary system that is conducive to the growth of trade and the generation and movement of capital across national borders.

Voting Power and Capital Subscription of the IMF and World Bank

"In both the Fund and the Bank, voting power and capital subscriptions or quotas are roughly proportionate to the relative economic size of the member states. The percentage distributions are approximately equal in the two institutions. Taking the IMF as the example, quotas and voting power range from SDR 6.7 billion and 21.24 percent for the U.S. down to SDR 5 million and 0.11 percent for Botswana and Lesotho. The nine Common Market countries have aggregate quotas of SDR 8.7 billion and voting power of 28.71 percent. Voting power is important in that certain major decisions (amendment of the Articles, increase in the size of the Executive Board and changes in quotas) require four-fifths of the voting power. Other important matters require 85 percent. Hence the U.S. has attached importance to holding its voting power above 20 percent. This will be one of the complications in the forthcoming quota review which is expected to increase the percentage share of quota of the OPEC Group from 5 percent to 10 percent, without decreasing the aggregate quota shares of the less developed countries. That will obviously be a difficult exercise.

The IMF and World Bank Control Very Large Financial Resources

"Undoubtedly a central characteristic of the IMF and the IBRD, which has been a key element in their effectiveness, is their possession and control of very large financial resources. This has enabled them to pay their own way, and to be financially independent of governments and annual appropriations. It has also made them basically operational; not only has it provided a high degree of independence of thought and action but it has also enabled them to develop an

especially competent career service, which has suffered much less than the U.N. from pressures for national allocation of secretariat positions.

The Principle of Concurrent Majorities

"Application of the principle of *concurrent*, as distinct from *simple*, majorities for fundamental decisions has had the effect of making the participating nations increasingly willing to lodge added authority and responsibility in these institutions.

The Executive Directors

"The Executive Directors comprise a group all of whom are in 'continuous session' at the Fund and the Bank. Effectively briefed by a competent staff and with a Chairman who is also the Managing Director or President, the Executive Directors have demonstrated an impressive capacity to make decisions.

"The work of the Executive Directors has been effectively supplemented from time to time by meetings of senior officials (the Group of 10, the Committee of 20, the Interim Committee) at both Ministerial and Under Secretary level, responsible for formulating national policies and for executing them. Such meetings have proved highly successful in promoting agreement at the top level of Governments.

An Annual Review of the Economies of Each Nation-State

"In recent years an 'annual review' procedure in the IMF has come to involve searching scrutiny of each member government's reserve position, balance of payments, rate of inflation or deflation and the general state of its economy.

Development of Wider Powers of Initiative and Executive Action

"Increasing governmental confidence in the staff and the top officers in both the Fund and Bank has led to the development of progressively wider powers of initiative and executive action for them. One effective activity has been technical assistance, particularly in helping less developed nations to formulate realistic development programs, financial stabilization programs, development banks, central banks, more effective fiscal systems, and better statistical services.

The IMF and IBRD Exercise Major Influence in Formulation of Monetary and Fiscal Policies

"The IBRD and the IMF have come to have major influence in the formulation of monetary and fiscal policies and exchange rates, as well as economic development programs, all of which were formerly exclusively the concern of national governments. They have done so by persuasion and building confidence,

rather than relying on legal powers or sanctions other than those of credit ratings and authority to give or withhold loans. But these are strong powers in practice.

Achieving Union in Europe

"During the War, the governments-in-exile of the Netherlands, Belgium and Luxembourg reached agreement that after the liberation of their countries they would form a customs and currency union. Belgium and Luxembourg succeeded in doing so but differences between the Netherlands and Belgium-Luxembourg in various fields of economic and social policy have prevented realization of a full customs and currency union. However, their pioneering efforts in that direction helped to inspire the effort to achieve union in the wider European Community. This experience clearly demonstrates the difficulty of achieving full monetary unity even between three governments of contiguous countries with a high degree of common interest.

The Organization for European Economic Cooperation and Closer Economic Cooperation at the Global Level

"In 1948 Western Europe was prostrate economically and facing acute hunger, suffering and social and political turmoil. Massive external aid was essential, with the U.S. as the main available source. Yet it was clear that American aid would be wasted if the recipients resorted to pre-war competitive beggar-thy-neighbor tactics of tariffs, quotas and other trade and payment restrictions against each other. Secretary Marshall made it plain in his Harvard speech of 1947, as did Congress in the Economic Cooperation Act of 1948, that progressively closer economic cooperation was the essential requisite for American aid. The British and French Foreign Ministers, Ernest Bevin and Georges Bidault, accepted the challenge and undertook to organize the efforts of the European allies to meet it. The Soviet Union, which was not intended to be excluded, opted out for itself and its satellites and thereby lost the opportunity for both national gain and international mischief making.

"Bevin recognized the need for both unity and security on a larger than European basis in December 1947 in his call for:

"...some form of union, formal or informal in character, in Western Europe, backed by the U.S. and the Dominions, such a mobilization of moral and material force as will inspire confidence and energy within and respect elsewhere.'

Allocating American Assistance

"The Organization for European Economic Cooperation undertook, with American participation, the interrelated tasks of allocating American assistance and of facilitating the interchange of capital and goods among the recipient countries. In the process, a habit developed which Jean Monnet described as:

"Instead of arguing with each other across the table, we all sat on the same side with problems on the other.'

"An effective relationship was developed between an integrated international staff and the various national delegations. The latter frequently found that recommendations agreed upon in the OEEC gave them effective assistance in getting legislative approval for constructive but politically difficult measures. The underlying U.S. financial and political pressure was a powerful, even compelling, stimulus toward agreement.

Each Nation Required to Report on Policies and Justify Them before Delegations of Nations

"The OEEC early developed a procedure by which the government of each member nation was required periodically to report on its relevant policies and to justify them under the scrutiny of the delegations of the other members. The process, which became known as the 'annual review,' proved valuable and has been adopted, in varying forms, by NATO, the IMF and the OECD.

NATO

"In 1947 and 1948 the apparent weakness of the U.N., the Soviet military occupation of Europe East of the Elbe, the coup in Czechoslovakia, the threat to Norway, and internal Communist influence in France and Italy, continued to make the fear of Soviet domination very real in the West.

The OEEC Begins the Task of Building a European Economic Union

"While the OEEC was beginning the task of building 'some form of union, formal or informal in character, in Western Europe, backed by the United States...', the North Atlantic Treaty was concluded to provide 'such a mobilization of moral and material force as will inspire confidence and energy within and respect elsewhere.'

"The Treaty was based on the necessity of deterring aggression. This entailed the corollary necessity of making clear that the Alliance had the ability, and the will, to defend its members promptly and successfully should aggression nevertheless occur. It was reasoned that both World Wars might have been avoided had the German Governments of 1914 and 1939 realized that the full industrial and economic strength and military potential of the U.S. would eventually be thrown against them.

Collective Defense Generated by Soviet Power

"The rapid build-up of collective defense capability in the early and mid-50's came from a shared 'impulse of fear' generated by Soviet power and conduct during that period.

"The Treaty and the Organization established under it have succeeded in deterring aggression for over a quarter of a century and even de Gaulle, who strongly objected to integration of forces under the Treaty Organization, placed high value on the existence of the Treaty for this reason.

Integrated Command Structure at NATO

"On the military side, NATO has established several integrated commands, of which the two most important are the Supreme Allied Commands, Europe and Atlantic. Except for air defense forces, command and control elements, and certain 'standing naval forces' in the Atlantic and Channel areas, NATO does not have forces under its operational control in peacetime. The peacetime responsibilities of the Commands under programs agreed by the NATO Council are primarily those of planning, higher training and force readiness, with administration, unit training, discipline and logistic support under national control.

The Annual Review Process

"The Council and the Supreme Commanders are dependent almost entirely upon their powers of persuasion in an unending struggle with national political pressures directed toward less expensive and less onerous defense. This is assisted by the 'annual review' procedure, which in NATO has two phases. Each year a 'Defense Planning Questionnaire' is sent the member governments requesting detailed information on the forces each will earmark for NATO for the next calendar year. The replies of the respective governments are considered binding commitments. Every other year this is supplemented by a review and consideration of the plans of each for defense expenditures during the next four years and its force goals for the next six years. The replies are naturally not binding due to the need for parliamentary approval and the likelihood of changing circumstances. These reviews are helpful, however, and take a broad approach, covering economic and political situations in each country insofar as security is concerned.

The Council is in Continuous Session

"The Council is in continuous session at the level of the Permanent Representatives and periodically, usually twice a year, at the level of Foreign and Defense Ministers. It met at the level of Heads of Government on June 26, 1974, to sign the 'Declaration on Atlantic Relations' which had been adopted at the Ministerial level earlier in the month. In December 1957 a Ministerial meeting was attended by the Heads of Government of all NATO countries, and in December

1959 a more limited meeting was held by Heads of Government of France, Germany, Great Britain and the United States.

Team Spirit at NATO

"A useful contribution has been made by the NATO Defense College in giving field grade officers and equivalent civilian officials a common view of NATO problems and a degree of 'team spirit,' similar to that developed by the staffs of integrated headquarters, and which endures and spreads as the individuals involved progress to greater responsibilities.

Establishment of the Nuclear Planning Group

"Nuclear weapons have presented the Alliance with particularly difficult questions. How many fingers should there be on the trigger? How many on the safety catch? Whose? Much of the heat generated by these questions some years ago has been cooled by establishment of the restricted Nuclear Planning Group in which representatives of a number of governments have studied the problems of nuclear planning and have participated in policy development, targeting and consideration of contingencies.

A Substantial Habit of Consultation

"Politically, the NATO Council at both Permanent and Ministerial levels has built up a substantial 'habit of consultation,' with varying results. It has worked well with respect to Berlin, SALT and the negotiations on European security, badly on Suez, the Middle East and a number of other problems outside the Treaty area.

"It has worked badly when the commitment of member governments to achieve common solutions has been weak, or when some key government, frequently the U.S., has for reasons of secrecy or urgency, consulted only at the last moment and, more exactly, 'informed' its allies of decisions already taken rather than 'consulted' them. It has worked well when the key governments, again notably the U.S., have started the consultative process in the early stages of a situation, before its own policy had crystallized, and been frank in its presentations and receptive to the views of others.

Development of the North Atlantic Assembly

"The need for closer understanding between the Executive and Legislative Branches of the member countries, and between the members of the respective legislatures, concerning NATO matters led to the establishment in 1955 of the NATO Parliamentary Conference, known since 1966 as the North Atlantic Assembly. It is purely advisory in nature and its advice is more often ignored than accepted. Nevertheless, it has succeeded in giving a large number of parliamentarians in NATO countries a considerably better understanding of NATO

problems. It has a small Secretariat and standing Political, Military, Economic, Scientific and Cultural Committees, which are gradually doing more effective work between the Assembly's annual sessions.

U.S. Participation in the North Atlantic Assembly

"The U.S. is the only nation which participates by an act of its legislature; participation by the others is 'unofficial' and not necessarily representative. American participation is hampered by distance and the inability or unwillingness of many Senators and Congressmen to devote adequate time to it. Efforts over the years to increase the Assembly's competence by linking it to the OECD as well as with NATO have foundered over the unwillingness of the neutral members of the OECD to be involved in any way with NATO.

Refusal to Grant North Atlantic Assembly More Than Advisory Powers

"The principal lesson is of the chicken and egg variety. The respective parliaments (and governments) are unwilling at this stage to grant an interparliamentary body more than purely advisory powers. Unless it has more substantial powers, parliamentarians find their regular work at home far more important. Yet the Assembly continues to develop greater parliamentary understanding of NATO problems and therefore better national legislation affecting NATO.

A Grand Design for Integrating the Coal and Steel Industries of Europe

"In 1950 Jean Monnet and Robert Schuman conceived a 'grand design' of totally integrating the coal and steel industries of France, Germany, Belgium, Luxembourg and the Netherlands as a basis for 'supranational' unity. Institutionally, the European Coal and Steel Community was to be headed by a High Authority, whose members, while appointed by governments, would be 'supranational' rather than representatives of the participating governments. There was also to be a Council of Ministers, a parliamentary assembly and a Court of justice. A similar institutional pattern was followed with respect to Euratom and the European Economic Community – all three now combined in the 'European Community' – although the Commissions, which replaced the High Authority in these two, had much less direct power.

Specific Steps Toward Supranational Unity

"The founding Treaties contained no provisions for withdrawal and a series of deadlines were set for specific steps toward more supranational unity, including the progressive abandonment of the requirement for unanimity.

Underestimation of the Difficulties of Coordinating National Policies

"Unfortunately, the drafters of those treaties and those responsible for carrying them out underestimated both the inherent difficulties of the task of coordinating national policies in a wide range of fields and the strength of political and bureaucratic nationalism in the member countries.. Deadline after deadline was bypassed. Unanimity is still required for most decisions. The powers of the Commission have been steadily chipped away by the Council – a Committee of national Ministers. The Commission itself has become more preoccupied with detail and the mechanics of keeping the machinery moving than with innovation.

The European Experiment Has Fallen Short of the Original Grand Design

"Yet despite the extent to which the 'European' experiment has fallen short of the original grand design it has much to its credit. It has achieved a customs union within a common external tariff. It has made progress in harmonizing agricultural and other economic policies to varying extents. It has provided pioneering experience in dealing with the organizational and political problems of building any kind of 'supranational' structure. And one achievement which has attracted little public notice is that of the Court of Justice, whose rulings not only upon governments but also directly upon corporations and individuals have been accepted without question.

The European Free Trade Association

"On the breakdown in 1959 of negotiations for a free trade area to include all of Western Europe, Great Britain took the lead in establishing the EFTA or 'Outer Seven,' a free trade agreement covering Britain, Austria, Denmark, Norway, Sweden, Switzerland and Portugal, as a counterpart to the 'Inner Six' of the European Economic Community. Unlike the latter, EFTA was to have no supranational features and no common external tariff, merely internal free trade in non-agricultural products. It set a target date of 1970 to achieve that objective and in fact achieved it three years ahead of schedule.

"While EFTA also succeeded in eliminating a number of internal non-tariff barriers and a very substantial increase in internal trade its members ran a consistently high deficit in trade with the EEC countries and the pull of the latter was strong. It has faded in importance with British and Danish membership in the EEC, and conclusion of agreements of association with the latter by other members.

"The effort in 1948 to establish an International Trade Organization as a Specialized Agency of the U.N. parallel to the IMF failed to come into being because of the refusal of the U.S. Congress to enact the legislation necessary for U.S. participation. But the United States and 22 other governments which had launched the ITO did conclude a 'General Agreement on Tariffs and Trade,' which

the United States was able to agree to under the authority of the Reciprocal Trade Agreements legislation enacted in 1945. The GATT exists to this day as a trade agreement under a 'Protocol of Provisional Application,' although it has developed much of the apparatus and most of the characteristics of an organization.

A Forum for Multilateral Negotiations

"GATT embodies a set of trade rules less extensive and detailed than those proposed for the ITO. Over the years it has provided a forum and international staff for six successive rounds of multilateral negotiations directed toward freeing trade from the restraints of tariff and other barriers and is now embarking on the seventh.

GATT Has Developed a Substantial Body of Interpretive Law

"Its membership includes a large number of developing countries on the basis of special arrangements which relieve them of most of the obligations which bind the developed nations. It has even found a place, also under special arrangements, for four state trading nations: Yugoslavia, Poland, Rumania and Hungary.

GATT Develops Close Working Relationships with the IMF, UNCTAD and OECD

"Despite its anomalous status, GATT has been treated by the U.N. as if it were a Specialized Agency and has developed working relationships with the IMF, UNCTAD and OECD.

"Against these achievements must be balanced a number of weaknesses.

"There has been a gradual weakening of the enforcement mechanism for international trade rules and a lessening degree of compliance.

"Many of the trade rules need to be brought up to date to take account of changed circumstances and new problems.

"The GATT has been unable to deal effectively with agricultural trade. It contains no provision for assuring access to resources, and needs to intensify action against non-tariff trade barriers as well as tariffs among the industrialized nations.

"The GATT, with a large and heterogeneous membership, operates on a one-nation-one vote basis. Even though simple or two-thirds majority votes are provided for, it has proved increasingly difficult to use the GATT machinery to secure effective decisions as GATT's membership has grown.

"The developed countries, despite the frequent pressures of strongly divergent special interest groups within their societies, have had an underlying common concern for having the international trade system work. Most of the developing

countries, now in a large majority in members but not in volume of trade, seek the benefits of the system but do not accept significant responsibility for its functioning.

"Except for a Director General with no specified powers, the GATT has never had any executive authority such as an Executive Committee or Governing Board of restricted size. The Secretariat has proposed establishment of a 'Management Committee' of representative character but limited size, but no agreement on it has yet been reached.

Global Lessons from the GATT Experience

"Among the lessons available from the GATT experience are these:

– The 80 or so GATT countries, which range from the smallest and very least developed to the largest and most highly industrialized, will not and cannot be expected to adhere to common trade rules except rules of the most general kind.

– Only those countries which adhere to common trade obligations should have the power to enforce those rules among themselves, for example through specific codes of conduct, provided that the principle of non-discrimination is observed toward other GATT countries.

The OECD and Coordination of Economic Policy

"By 1960 it had become apparent that the European framework was too limited a one for the coordination of economic policy and that more attention should be given to the needs of the developing nations. The Organization for European Economic Cooperation was accordingly reorganized into the Organization for Economic Cooperation and Development, with the U.S. and Canada as full members and with the same privileges and responsibilities as its European members. Japan, Australia and New Zealand have subsequently become members. Discussions designed to coordinate, increase and improve the quality of assistance by the industrial countries to the developing ones are carried on in the Development Assistance Committee.

An Attempt to Escape the Unanimity Rule

"The Treaty establishing the OECD sought to escape the unanimity rule. It provided that decisions and recommendations must be taken by mutual agreement of all the members but that 'if a Member abstains from voting on a decision or recommendation such abstention shall not invalidate the decision or recommendation, which shall be applicable to the other Members but not to the abstaining Member.' The Intent was, however, largely nullified because the U.S. State Department, in order to obtain Senate approval of the Treaty, felt compelled

to give assurance that the U.S. would always insist on unanimity insofar as its own interests were concerned.

"The inheritance of much of the work of the OEEC and the breadth of the OECD's new mandate has resulted in over forty separate committees and working groups, and a staff of over 1,500. It is criticized for trying to cover too many disparate subjects and not doing as much as it should to concentrate on priority questions and to integrate the related aspects of key problems. There is undoubtedly room for more concentration of effort, but the price of sloughing off some of the peripheral work might well be the establishment of new functional agencies, and thus little real saving in staff expenditures would result.

The OECD's Impact on Government Policy Comes from Confidential and Unpublicized Discussions of Ministers Responsible for Economic Policy

"The OECD has been largely successful in compiling and analyzing information. Its economic analyses in particular enjoy a high reputation, and its statistical and other publications are very widely used. Its impact on government policy is hard to measure for much of its influence comes not from the formal adoption of rules and recommendations but from confidential and unpublicized discussions among the ministers and officials responsible for economic policy.

"One aspect of this is the 'annual review' procedure which entails detailed consideration of each government's presentation of its country's economic trends and outlook, including costs and prices, terms of trade, flow of capital and other relevant elements.

Regular Meetings of the Economic Policy Committee

"Two factors have been significant in determining the degree of success achieved. One is the personal competence and calibre of the senior officials of the Secretariat and of the key national participants, both Ministerial and Permanent Representatives. The other is the regular and *ad hoc* participation, as in Working Party 3 and the Economic Policy Committee, of senior national representatives responsible in their own capitals for determining and carrying out policy.

Development of the Communications Satellite Corporation

"U.S. Pioneering in the field of international communications by satellite led to the establishment in 1963 by Act of Congress of the Communications, Satellite Corporation (COMSAT) to provide modern communications between the U.S. and such other countries as wished to have similar services. COMSAT was given a unique form of organization – a publicly owned corporation with its Board of Directors nominated one-third by the Government, one-third by its shareholders (the public) and one-third by its customers (the commercial communications companies). All its stock is now publicly held. It provided for U.S. management of

the 'space segment' of the system, which consists of the satellites and the terrestrial working, control and monitoring facilities. The ground transmitting and receiving stations comprising the 'earth segment' of the system are owned by the respective governments or private commercial organizations and paid for by them.

An International Organization Necessary in the Long Run

"It was obvious that an international organization would be necessary in the long run and the International Telecommunications Satellite Organization (INTELSAT) was established as a temporary consortium in 1964 and as a permanent organization in 1973. At the end of 1974 it had 89 telecommunications organizations, representing their respective governments, as members. Weighted voting is based, differently from that of the Bank and Fund, upon the percentages of *use* of the system. COMSAT represents the U.S. and will continue as the Management Services Contractor of the Organization at least until February 11, 1979, when its present contract expires and the position is to be opened to competitive bidding.

"Traffic has grown at the rate of some 20 percent a year and voting power is recalculated quarterly. The U.S. share has declined from an original 80 percent to approximately 38 percent at present.

The Need for a Mixture of Private Ownership and Intergovernmental Organization

"The experience has shown that a mixture of private enterprise and ownership with intergovernmental organization is practicable in a field of advanced technology, at least in the early stages of its development. A complicating factor is that the Federal Communications Commission has, under the communications Satellite Act of 1962, regulatory jurisdiction of some of COMSAT's functions, including rate making.

The International Energy Agency

"As the International Energy Agency was created only in November 1974 and is still only in 'provisional' existence, it would be premature to try to draw lessons from its experience other than those evident in the agreement for its establishment.

"First, the agreement expresses the conviction that the objectives of the members with respect to energy can be achieved only 'through continuing cooperative efforts within effective organs' to be created within the framework of the OECD.' The 'effective organs' are to be a Governing Board, a Management Committee, four substantive Standing Groups and a Secretariat.

"Second, it provides a scale of weighted voting power and specific decisions to be taken by unanimity (particularly those relating to the imposition of new obligations and certain others which require specified majorities.

Global Lessons Learned from International Cooperation and Coordination

"In summary, what lessons can we derive from experiments in international cooperation and coordination since World War I?

"Neither universality nor the requirement for unanimity, and particularly the combination of the two, is conducive to effective decision-making. Irresponsible voting by permanent or *ad hoc* groups of states can also make majority voting of dubious value and discredit the machinery. Concurrent majorities requiring two-thirds and three-quarters of the votes, together with weighted voting based, at least where economic or financial matters are concerned, in relation to the degree of responsibility of the member, are more conducive to meaningful results. So is the practice by which a member not wishing to participate in a particular exercise can abstain without blocking a decision of the others.

"Every nation has the right to express its own position and a legitimate desire to have its particular interests taken into account, but decisions have to be reached. Obviously decisions can most easily be reached by a comparatively small number of governments (the fewer the easier it is) with the greatest interest in and responsibility for a particular problem, a substantial background of common interest with respect to it, and the greatest ability to do something about it.

Coordinated Decision-Making Policies at the Global Level

"Functional problems lend themselves more easily to coordinated decision-making than broader or more general political and economic ones. With the functional approach, administrative questions and substantive ones which do not have a high political content can often be dealt with by majority voting, weighted roughly in accordance with the degree of responsibility.

Close Relationship Between International Officials and National Delegations

"Close relationships between international officials and national delegations in various institutions, between the delegations and their own governments, and between policy-makers in the various home governments are highly important. Such relationships facilitate both the making of decisions and the carrying out of even politically difficult ones by the respective governments.

"Personalities play a large part. The calibre of the heads and senior officials of international staffs and of national delegations, and naturally of the corresponding high ranking officials in the respective governments, is highly important. The

institutions provide continuity and the means by which strong personalities can achieve constructive results.... (*Ibid.*, pp. 12-29.)

Members of the Special Committee on Intergovernmental Organizations

One can readily imagine the power which such a world directorate would possess if the elite of Japan, America, Europe and Russia were to join hands. The USSR played an important role in manipulating the Western world into convergence. The goal is for Russia at some time in the near future to join the Western power team in 'managing the world.' Members of the Atlantic Council's Special Committee on Intergovernmental Organizations and Reorganization which produced "Beyond Diplomacy" were:

Chairman

Hon. Henry H. Fowler – Partner, Goldman, Sachs & Co; Former Secretary of the Treasury; Chairman, Atlantic Council

Consultant:

Sir Eric Wyndham-White – Former Director General of the General Agreement on Tariffs and Trade

Rapporteurs:

Hon. W. Randolph Burgett – Former Under Secretary of the Treasury; Ambassador to NATO and OECD; Vice Chairman, Atlantic Council

Hon. Theodore C. Achilles – Former Counselor of the State Department and Ambassador; Vice Chairman, Atlantic Council

Members:

Hon. Gardner Ackley – Professor, Henry Carter Adams University, University of Michigan; Former Chairman of the President's Council of Economic Advisors; Ambassador to Italy

Hon. George W. Ball – Partner, Lehman Brothers; Former Under Secretary of State; Director, Atlantic Council

Hon. W. Michael Blumenthal – Chairman, President and Chief Executive Officer, The Bendix Corporation; Former Deputy Special Representative for Trade Negotiations; Director, Atlantic Council

Dr. Zbigniew Brzezinski – Director, the Trilateral Commission; Research Institute of Communist Affairs, Columbia University

Dr. Miriam Camps – Senior Research Fellow, Council on Foreign Relations

Hon. Harlan Cleveland – Director, Aspen Program in International Affairs; former Assistant Secretary of State and Ambassador to NATO; Director, Atlantic Council

Mr. Emilio Collado – Executive Vice President, Exxon Corporation; Director, Atlantic Council

Professor Richard N. Cooper – Yale University; Director, Atlantic Council

Hon. Frederick I. Deming – President, National City Bancorporation; Former Under Secretary of the Treasury; Director, Atlantic Council

Dr. Richard N. Gardner – Henry L. Moses Professor of Law and International Organization, Columbia University; Director, Atlantic Council

General Andrew J. Goodpaster – Former Supreme Allied Commander, Europe; Director, Atlantic Council

Hon. Walter W. Heller – Professor, Department of Economics, University of Minnesota; Former Chairman of the President's Council of Economic Advisors

Mr. Tom Killefer – Vice President of Finance, Chrysler Corporation; Former Special Assistant to the Secretary of the Treasury; Former Vice President, Export-Import Bank and U.S. Executive Director, Inter-American Bank; Secretary, Atlantic Council

Mr. Robert Kleiman – Editorial Board, *New York Times*

Hon. John M. Leddy – Former Assistant Secretary of State and of the Treasury; Former Ambassador to the OECD; Director, Atlantic Council

Dr. Harald B. Malmgren – Smithsonian Woodrow Wilson Fellow; Former Deputy Special Trade Representative, Executive Office of the President; Director, Atlantic Council

Hon. Paul McCracken – Professor, Graduate School of Business Administration, University of Michigan; Former Chairman of the President's Council of Economic Advisors

Hon. William McChesney Martin – Former Chairman, Board of Governors of the Federal Reserve; Director, Atlantic Council

Hon. Edwin M. Martin – Chairman of the Consultative Group on Production and Investment in Developing Countries, The World Bank; Director, Atlantic Council

Hon. Livingston T. Merchant – Former Under Secretary of State for Political Affairs and Ambassador to Canada; Vice Chairman, Atlantic Council

General Lauris Norstad – Former Supreme Allied Commander, Europe; Vice Chairman, Atlantic Council

Hon. Arthur M. Okun – Senior Fellow, The Brookings Institution; Former Chairman of the President's Council of Economic Advisors

Mr. Henry Owen – Director, Foreign Policy Studies, The Brookings Institution; Director, Atlantic Council

Hon. David Packard – Chairman of the Board, Hewlett-Packard Company; Former Deputy Secretary of Defense; Director, Atlantic Council

Hon. Robert V. Roosa – Brown Brothers, Harriman and Co.; Former Under Secretary of the Treasury for Monetary Affairs; Director, Atlantic Council

Professor Eugene V. Rostow – Professor, Yale University Law School; Former Under Secretary of State; Vice Chairman, Atlantic Council

Hon. Dean Rusk – Professor, University of Georgia Law School; Former Secretary of State; Director, Atlantic Council

Hon. Nathaniel Samuels – Chairman, Louis Drayfus Corporation; Former Under Secretary of State for Economic Affairs; Director, Atlantic Council

Hon. J. Robert Schaetzel – Former Ambassador to the European Communities; Director, Atlantic Council

Hon. Adolph W. Schmidt – Banker; Former Ambassador to Canada; Director, Atlantic Council

Hon. Frank A. Southard – Former U.S. Executive Director of the IMF and Special Assistant to the Secretary of the Treasury; Former Deputy Managing Director and Vice Chairman of the Executive Board of the IMF; Director, Atlantic Council

Hon. Herbert Stein – Department of Economics, University of Virginia; Former Chairman of the President's Council of Economic Advisors

Hon. Alexander B. Trowbridge – President, the Conference Board; Former Secretary of Commerce; Vice Chairman, Atlantic Council

Hon. John W. Tuthill – Director General, Atlantic Institute for International Affairs; Former U.S. Representative to OECD and Ambassador to European Communities; Director, Atlantic Council

Hon. Paul Volcker – Professor, Department of Economics, Princeton University; Former Under Secretary of the Treasury for Monetary Affairs

Hon. Francis O. Wilcox – Executive Director, Commission on the Organization of the Government for the Conduct of Foreign Policy (Murphy Commission); Former Assistant Secretary of State; Director, Atlantic Council (*Ibid.*, back cover.)

The Strengthening of International Organizations

The elite of the Western world have created a set of powerful organizations to 'manage' the world order they have created over the last century. These include the International Monetary Fund (IMF); World Bank (IBRD); General Agreement on Tariffs and Trade (GATT), now the WTO or World Trade Organization; Bank for International Settlements (BIS) and the Organization for Economic Cooperation and Development (OECD). As one Trilateral Commission report states:

"While new institutions may be required in some areas, the general emphasis should be on the adaptation and reform of existing institutions, such as the IMF, GATT, OECD, World Bank and its affiliates, and others. New agencies may, however, be needed for the oceans, oversight of multinational corporations on stabilizing commodity prices...." (Richard W. Cooper, Karl Kaiser, Masatoka Kosaka, "Toward a Renovated International System," *The Triangle Papers: 14*, New York: The Trilateral Commission, 1977, p. 41.)

It is the IMF, OECD, IBRD, GATT and BIS which have served the elite world establishment so well. They are currently in the process of strengthening and updating the structural capabilities of these organizations in order to better manage the worldwide system which they have created. In 1994 they were successful in transforming GATT into the World Trade Organization, an effort which took over 50 years to accomplish.

As we enter the Twenty First Century, the movement toward a "community of nations" is accelerating at breathtaking speeds. The citizens of the next century will witness the creation of a "new Imperial System" that will rival the old Roman Empire.

8. The Third Try at World Order

Henry Steele Commager states in the closing section of his Declaration of Interdependence that 'we can no longer afford to make little plans....' These worlds are truly reflective of Harlan Cleveland's *The Third Try at World Order: U. S. Policy for an Interdependent World*. Cleveland's book is a result of the synthesized opinions of various Interdependence Assemblies sponsored by the World Affairs Council of Philadelphia. It is quite revealing and will be reviewed in this section.

In his foreword Cleveland states: "In preparation for the American Revolution Bicentennial of 1976, the World Affairs Council of Philadelphia commissioned the distinguished American historian Henry Steele Commager to produce a *Declaration of Interdependence*. But the world-minded Philadelphians were not content to leave that 'policy' at the level of eloquent rhetoric. Having declared our interdependence, they set about – as their ancestors had done with their Declaration two centuries before – to carry the words into action." (p. vii.)

Let us now look at several passages of Cleveland's essay on the "third try at world order."

Beginning the World Over Again

Cleveland begins his book with these words by Thomas Paine, 1775:

"We have in our power to begin the world all over again. A situation similar to the present hath not appeared since the days of Noah until now. The birthday of a new world is at hand."

First Try at World Order

In his first chapter, Cleveland outlines for us the series of attempts that have been made at creating a community of nations. He states that: "The first try, the League of Nations, was the product of Woodrow Wilson's strong initiative and the victim of his weak follow-through; the United States wrote most of the club rules, then decided not to join the club. In its weakened condition, it could not survive the rise of fascism, Nazism and militarism.

Second Try at World Order

"The second try, the United Nations, was launched by the victors in the Second World War, to manage the world they had won. It was weakened by tepid Soviet participation from the start, and transformed by the independence movement that nearly tripled its membership in thirty years. The U.N. received the unremitting support of the United States as 'man's last best hope' until (by the rules we had helped write into its Charter) the poor-country majority took over from us the practice of bloc voting on symbolic resolutions, thus intensifying our isolationist superfears and disappointing our internationalist superhopes. Today, the U.N. reflects quite accurately the political turmoil and tensions of a world in deep transition. But as presently organized and used by its members, it is ill-adapted to arrange the new bargains that are urgently needed, or for getting decisions made on a lengthening list of new global issues.

Third Try at World Order

"The third try at world order stems from the growing awareness of the interdependence of peoples, problems, and policies. It begins for Americans with changes in attitudes and institutions at home, and extends to leadership in fashioning new cooperative attitudes and institutions for a world that is not yet a community.

"We will not be talking about 'American leadership' in its old overblown, ethnocentric, self-righteous meaning, but about new styles of shared leadership, with a newly global perspective, in new kinds of institutions that better express how universal those first few paragraphs of Jefferson's 'Declaration of Independence really were.'" (Harlan Cleveland, *The Third Try at World Order: U.S. Policy for an Interdependent World*, N.Y., Aspen Institute for Humanistic Studies, 1977, pp. 2-3.)

Changes in American Attitudes and Institutions

Cleveland states that the Third Try at World Order "begins for Americans with changes in attitudes and institutions at home, and extends to leadership in fashioning new cooperative attitudes and institutions for a world that is not yet a community." (p. 3.)

Cleveland believes that: "The international organizations designed a generation ago by Atlantic leaders to govern the cooperation of all nations with each other show all the symptoms of multiple sclerosis." (p. 7.)

Long Agenda Ahead

Cleveland argues that: "There is thus a long agenda of creative effort just ahead. Somehow the community of nations – or at least of those most concerned – will need to create a food reserve, assure energy supplies, depress fertility rates, stabilize commodity markets, protect the global environment, manage the ocean and its deep seabed, control the modification of weather at human command, rewrite the rules of trade and investment, reform the monetary system, mediate disputes, reduce the cost of military stalemate, control conflict in a world of proliferating weapons, keep the peace when it is threatened and restore the peace when it is broken.

"It is this impressive agenda, taken as a whole, that will amount to a third try at world order. It will not, this time, feature the creation of some new overarching world organization. Rather, it will be a variety of bargains, systems, and arrangements which reflect the paradox of the world order – that there is no consensus to entrust any nation or race or creed or group with general responsibility for world governance, yet there is an urgent need to tackle problems which will yield only to world-scale solutions.

"...Living in a world where no body is in charge, but the United States of America always seems to get on the executive committee, will require of Americans some very special attitudes of mind and qualities of spirit." (pp. 8-9.)

Complete Disarmament

In chapter 6 Cleveland calls for complete disarmament of all nations and the placing of nuclear arms, etc., under the control of some international institution. He then makes the following recommendations: "In a world full of dangerous weapons and unusable military power, the control of arms by agreement cannot be an afterthought, or delegated to a specialized agency of government. The United States, as 'the fat boy in the canoe,' is in a position to take a strong lead in reversing the direction of all three arms races by:

"downgrading the usability of nuclear weapons;

"pressing hard and imaginatively for actual reductions in nuclear warheads and strategic delivery systems-and getting the rest of the world to help break down Soviet reluctance to get on with arms control (but that means we have to mean it ourselves);

"retarding the proliferation of nuclear 'mobilization bases' by shortening the 'nuclear parenthesis' in the development of future energy supplies;

"taking a fresh look at arms sales policy, developing first a U.S. policy that brings sales within the perimeter of our own national interest, and then pressing for parallel policies with other supplies (as is being done on nuclear exports through the 'London group');

"pressing for a world-wide agreement to deny terrorists the means of communication and transportation;

"and helping to beef up the U.N.'s capacity to provide 'third parties' for peacemaking and international units for peacekeeping." (pp. 47-48.)

World Institutions to Maintain Army

Cleveland states that it will be necessary to maintain certain "international 'soldiers without enemies.'" (p. 47.)

A Global Fairness Revolution

Cleveland starts chapter 7 with the following words: "If the General Peace can somehow be kept – and what other assumption makes sense? – the rest of world-order politics is how to organize a process of planetary bargaining about the prudent use of resources, the production and distribution of wealth, and the

management of global systems. The bargainers will be shifting casts of 'actors,' but Americans and their government are bound to appear in every act. That is why it's useful for us to review the whole plot as the on-stage posturing begins.

"The essence of the story will be the maturing of the next great world movement, a global fairness revolution. It has been preceded most recently by the Renaissance and the Reformation, the industrial revolution, and the revolutions of national independence, starting with ours. It coincides with vertiginous changes in scientific discovery and technological innovation, which are producing the first experiments in 'post-industrial' or 'information' societies. It vies for attention with a continuing superpower rivalry, with open competition and close alliances among the industrial democracies, and with old-fashioned power politics between and among neighbors in every world region.

"But I think it is a reasonable guess that the global push for fairer distribution of worldly goods will be on center stage...." (p. 49.)

"...some method will surely have to be found to make the meeting of basic human needs...a central purpose of a New International Economic Order." (p. 54.)

Family Planning in the New World Order

Continuing, Cleveland quotes an Aspen Institute international workshop as suggesting that "Family planning is an important means to the goal of meeting human needs...." (p. 62.)

A Blueprint for the Future

Cleveland next outlines that: "The third try at world order emerges,...as a creative surge of pluralistic institution-building in a world where no nation or alliance can call the new tune and write the new rules. It will have to be a dynamic peace system that preserves most of the existing forms of international cooperation and builds out from them in performing three kinds of functions."

I. An Interlocking Series of Systems

"One aim of international action will have to be an interlocking series of systems to make sure mankind as a whole stays well inside the seven 'limits' suggested by the diagram below.

The capital letters key to the diagram is as follows:

"A. A System for establishing and reviewing international standards for individual entitlement to food, health, education, and any other agreed components of 'minimum human needs'; and for relating international economic cooperation, including aid, to progress toward these standards.

"B. A system for international review and monitoring of national decisions about growth, affluence and waste in the more developed countries.

"C. A system that negotiates and monitors agreed standards of air and water quality, and reviews national actions that pollute beyond national frontiers.

"D. A system that keeps under review the damage and potential damage from man-made processes, and blows the whistle on those that may affect people beyond national frontiers.

"E. A system that promotes exploration for, and keeps a world inventory of, nonrenewable resources that may be needed by people outside the nations where the resources happen to be found.

"F. A system that monitors world production of food and fibers; seeks international agreement to limit overcropping, overgrazing, overcutting and overfishing; and provides for the exchange of timely information on national harvests and food requirements.

"G. A system that limits conflict by international conciliation and mediation, the deployment of peace-keeping forces, and (through arms control) the institutionalization of military uncertainty at the lowest possible cost."

II. New or Adopted Institutions to be Created

"Second: Beyond international attention to the sevenfold limits, there are functions which require new or adapted international institutions, to create agreed frameworks for planetary bargaining.

"Among the most urgent systems waiting to be born are those needed:

"To hold, finance, and manage buffer stocks of major world commodities, assuring continuity of supply and price stability for producers and consumers in relation to long-term market forces....

"To ensure access by developing countries to markets in the industrial countries....

"To help manage constructive shifts in industrial geography (for example, doing more processing of raw materials in the country of origin), and help nations plan investment in their own industries in the light of investment policies of other nations....

"To push agricultural productivity in the developing nations, and meanwhile to make sure there is enough food for all through a world food reserve (for which the

North American granary is bound to be the key source of supply during the next few years)....

"To promote cooperation between oil producers and consumers, to reduce energy waste in industrial societies, and assist developing countries in devising sound energy policies.... The developing nations, on their side, will need to adopt energy-saving and laboring-using strategies, and encourage foreign enterprises in the search for new energy sources. (The Soviet Union, now the world's largest oil producer with vast reserves of fossil fuels, could also make a contribution to world energy balance by welcoming joint ventures with the industrial democracies to develop its resources.

"To resolve differences among transnational enterprises, host countries and home countries over such issues as taxation, employment, competitive practices and contributions to meeting basic human needs.

International Taxation by International Institutions

"To raise funds for development financing directly by fees and taxes related to the use of international 'commons', and to marry the allocation of these funds to the meeting of minimum human needs inside each developing country.... The rationale for a new kind of development aid was suggested by the group which last year proposed a 'planetary bargain'; 'Rather than trying to pump life back into the worn-out policy of year-to-year decisions by individual governments on how much to appropriate and to whom it should go, what is needed is a flow of funds for development which are generated automatically under international control.... The idea of international taxation (on ships for their use of international waters, on international telecommunications, on ocean fisheries, on passports) is a hardy perennial, but we believe it should be treated as an idea whose time has come.... The key concepts here are automatic revenue-collecting by international agencies, related to benefits clearly derived from the taxpayers' use of the international commons; but use of the revenues to fund direct efforts to meet basic human needs in the poorer countries....'

"To provide for effective international consultation on actions by national monetary authorities which substantially affect the money supply, and create international money in a manner and at a rate that is compatible with economic growth at reasonable rates of inflation....

"To regulate conflict, promote research, develop protein, conserve fisheries, and explore, exploit and share the revenues from the oceans, the continental margin and the deep seabed. The world is now in the decisive phase of negotiations on a Law of the Sea treaty to govern the 70% of the earth's surface covered by oceans....

III. The Management of World Institutions

"The third and most 'natural' target for international action [is] the functions which are international by their very nature, and require world institutions to manage them:

"To collect and disseminate better information and guesses about the weather – and move toward international standards for weather modification.

"To develop the fairest and cheapest systems of international global communications, including the use of satellites.

"To create an international system for the use and protection of resource data derived from the constantly improving sensors operating from space vehicles.

" To promote research on common threats to mankind, such as damage to the ozone layer – and common opportunities for mankind, such as building solar power stations in outer space." (pp. 64-70.)

Rule by Consensus

In chapter 8, "The Third Try: World Order Diplomacy," Cleveland analyzes the difficulty in reaching decisions via consensus among groups and nations. He states the following:

"Whether the U.N. becomes the inclusive framework for the new order will depend not only on what its member governments intend, but on the way they make decisions together – and on the quality of policy analysis they encourage international executives to do.

"The U.N.'s voting procedure, which was derived from parliamentary practice in the West, has turned out to be a damaging handicap. It is clear now from a generation of experience that the more voting there is, the less action there is. This is sometimes true in clubs and villages and cities and national governments too: voting moves each issue to quick disagreement about words rather than careful agreement about action.

"The Charter, mostly written by Americans and other Westerners, established a pseudo-parliamentary system for making decisions. But that is not how decisions are made in most of the world; they are made in various fashions by consensus among those who have the capacity to act, and the interest in acting, on a given issue. And it is noticeable that in international meetings where action is the intended result, there is now an increasing trend toward 'no objection' or 'consensus' procedures rather than a 'division of the house' which makes the disagreements clear but inhibits doing anything about them." (p. 77.)

Cleveland continues and suggests that we rebuild the United Nations as one alternative in the multifaceted road to world order: "During the debate on U.S. objections to the U.N.'s 'automatic majority,' at the 1974 General Assembly, the Indonesian delegate spoke thoughtfully of his country's tradition of decision making through *musyawarah* and *mufakat*, consultations and consensus. "Most of our countries,' he said, 'have at one stage or another known that method. The process may be lengthy, cumbersome, sometimes exasperating, but we are much better off than immediately after our independence when we experimented with the "half-plus-one-is right" method....' As we rebuild the United Nations and/or begin to fashion new or adapted institutions to take on new international functions, the West will do well to look for viable alternatives to 'half-plus-one-is-right.'" (pp.77-78.)

Consortia of the Concerned to Manage the New International System

Cleveland states that: "What may well develop is a two-tier international system. Board initiatives and declarations of principle require some sense of participation by all who are affected by an international operation. But most of the new international operations are likely to be put together and managed by 'consortia of the concerned.' Even in the World Weather Watch – there is nothing more global than weather – most of the work is done and most of the money is spent by a very few nations, especially the United States and the Soviet Union which set up the first two big centers for processing the complex computerized meteorological data from all over the world. *Intelsat*, the communication satellite organization which the Soviets have not joined, is a consortium of the concerned which actually owns the satellites that now carry an enormous volume of the world's long-distance messages.

"Two principles will make a two-tier international system politically feasible. One is that in the operating entities – for environmental monitoring, commodity stabilization, food reserves, energy planning, investment regulation, monetary management, development financing, seabed exploration, or whatever – both the producers and consumers be fairly represented.

"That does not mean everybody should be in on every act, but merely that every nation should feel that its kinds of interests are effectively brought into the bargaining. This is in fact the way the Paris talks on oil and other issues were set up: 27 nations are discussing global issues that affect 150 nations. (One of several reasons why the Law of the Sea negotiations have not managed to agree on anything yet is that the periodic conferences include all 150 of the parties at interest.)" (p. 79.)

He goes on to state: "The other principle is that the smaller operating entities will have to have some obligation to report to and consult with the rest of the world, whose interests they are touching with their everyday operations.

"For this purpose a global assembly – the U.N. General Assembly for some functions, specialized assemblies or big ad hoc conferences for others – is an indispensable ingredient in the recipe for a consensus that enables those who are most involved to get on with a management task while keeping in touch with a wider consultation circle. There are many examples of this principle at work already – the Executive Directors of the World Bank, who represent regional groupings in the Bank's governance, and the Security Council of the United Nations, which has five permanent and ten rotating members, are cases in point." (p. 80.)

Global Education Processes in America

In chapter 9, "The melding of 'Foreign' and 'Domestic,'" Cleveland states that: "The domestication of international relations is not a theory about the future; it is a transition already under way." (p. 84.)

Branch of U.S. Government to Manage Interdependence

Cleveland next discusses several proposals that would call for the enhancement of the executive branch of government: "At the governmental level, every agency has its own international relations. Actions of the U.S. Department of Agriculture are among the most important decisions made about the world food balance. The Federal Aviation Agency maintains a web of transnational relationships to make global air travel safer. Federal energy agencies try to conserve fuel and encourage alternatives to imported oil – and thus determine what the United States and its industrialized allies can accomplish in negotiating with the oil producers' cartel. The Environmental Protection Agency finds that many forms of pollution require international cooperation to monitor and control. Each new technological breakthrough – fast computers, weather modification, remote sensing of crops and geological formations from orbiting satellites, discoveries in disease prevention, new ways to fish and drill and mine and build in marine environments – brings with it a new tangle of international claims and conflicts.

"In the so-called 'old-line' Departments, the interdependence functions are also of growing importance – Justice's immigration controls, Treasury's Coast Guard and debt-management operations, Commerce's weather service, and Interior's Pacific Islands are just a few of a hundred examples. The quasi-independent bodies also have foreign policies of their own. The Federal Reserve Board has a dominant voice in determining the growth rate of the world's largest stock of international money, the U.S. dollar. And the Nuclear Regulatory Commission has the power, which it has not yet decided how to use, to veto a White House decision to export nuclear materials or equipment.

"Despite these well-known facts, it is almost literally true that only one person in the executive Branch is hired to work on *both* domestic and international policy. His title is President of the United States.

"One of the most elementary doctrines about the management of large-scale systems is that a supervisory office should not be set up in the same way as its subordinate office – that, indeed it should be deliberately organized to cut across the vertical divisions below, in order to illuminate their interrelationships and inconsistencies before issues come to the top executive for 'decision.' Each of the Cabinet Departments was established essentially to deal either with national security/foreign policy matters, or with domestic policy. Yet the White House has for three decades been organized in the same way, coordinating State and Defense and the intelligence community through a National Security Council (NSC), and gathering the rest of the government into a "Domestic Council,' the lineal successor of a function performed by staff officers under a variety of names ever since the Truman Administration. Since the system does not fit the function, dissonance between foreign and domestic policies is normal. Most Americans remember how the price of bread in the local supermarket went up when the U.S. Government failed to regulate Soviet grain purchases in 1972. Lift the veil from the price of oil, the market for soybeans, the law of the sea, the sale of arms and the export of nuclear equipment, and you will find ready examples of international ramifications unpredicted, ignored or suppressed.

"What to do? There is no way that these interdependence issues can be stuffed into the one Cabinet department supposedly responsible for international affairs. Managing the U.S. involvement in international bargaining, and relating the transactions to each other, will still be the job of the Secretary of State as the President's deputy for dealing with foreigners. But the *content* of these negotiations reaches so deep into American politics (the oil crisis is displayed at the filling stations, Soviet wheat purchases raise the price of bread at the local supermarket, decisions about the global money supply are felt in the consumer's pocketbook) that the Secretary of State can't become fully responsible for them without being elected President. With the two unimpressive exceptions already noted, that hasn't happened since John Quincy Adams.

"The answer is probably to view foreign policy, Adam Yarmolinsky suggests, as 'not a subject matter for government decision-making; it is rather an aspect of every important government decision.'

"The implications are far-reaching. If logically pursued, the White House 'domestic council' would become an 'interdependence council,' and would include the Cabinet officers responsible for foreign relations and defense management. Below the White House level, Cabinet and sub-Cabinet officers in each department would be recruited to play personal roles on a world stage, explaining the United States policy and absorbing criticism directly not filtered through the State Department.

"The Secretary of Agriculture should know that one of his primary mandates (working closely with the agricultural constituency and with Congress) is to help

establish a system of world food reserves, rearranging general incentives in such a way that they reward not scarcity but abundance.

"Officials charged with energy policy would think of their function as part of a world system designed to ensure fuel supplies to allies and developing nations as well as the United States, and also designed to minimize the proliferation of the capacity to develop nuclear weapons.

"The Secretary of the Treasury would know that his mandate includes helping to invent a more international monetary system and finding ways to finance buffer stocks of major world commodities, to assure continuity of supply and price stability for producers and consumers in relation to long-term market forces.

"The Secretary of Commerce would as a primary task work toward effective international arrangements to resolve differences among transnational enterprises, host countries and home countries over such issues as taxation, employment, and competitive practices. "The President's ranking deputy for world-order diplomacy would still be the Secretary of State, the ranking American negotiator in an increasingly complex international decision process. But the department he heads could not even dream of having a monopoly of 'foreign affairs.' For the whole government, international policy would be part of day-to-day decision making.

"To serve as the opposite number to a White House-based interdependence council, Congress would need a joint committee on interdependence. Here there are several useful models – the joint committees on the economic report and on atomic energy, and the arrangement now being tested for a Congressional Budget Office tied in with two committees on the budget that are supposed to balance total Federal income and outgo.

"The interdependence issues cut across the traditional jurisdiction of Congressional committees, just as they cut across the responsibilities of existing executive departments. A joint standing committee with explicit responsibility for analyzing such cut-across issues might give the public something of Congressional origin to compare with the President's proposals, and thus enable the Congress to avoid the present unhappy choice between sounding negative or appearing acquiescent." (pp. 84-87.)

Americans Urged to Think of Themselves as Citizens of the World

Cleveland next quotes a commission convened by Robert O. Anderson, former Chairman of the Board of Trustees of the Aspen Institute. The Commission called for Americans to be thinking of themselves as "citizens of the world." Cleveland begins as follows:

"In 1975 a National Commission on Coping with Interdependence (not appointed by the Government but convened by businessman Robert O. Anderson)

ruminated about all this and decided that the key to making sense, for naturally pluralistic Americans in a necessarily pluralistic world, is 'to rethink this fading distinction between 'domestic' and 'international.' It is 'a staggering assignment,' the commissioners conceded. 'But it is,' we believe, 'central to our future for Americans to act, each in his or her own context, as though we really were citizens of the world as well as residents of our favorite part of it.

"This basic change of attitude will not come in the first instance from executive edicts or legislative enactments. It will come from a review of the implications of interdependence by each of the major institutions which help govern our pluralistic policy – by corporations and their associations, by organized labor, by farm organizations, by foundations and non-profit enterprise, by school systems, colleges and universities, and educational associations, by newspapers, magazines, the electronic media and journalism associations, and by governments, municipal and state as well as federal....

"No group of citizens can prescribe in detail the actions each American organization should take to cope effectively with interdependence. Our society is too thoroughly pluralistic for that. What we have done, instead, is to suggest an attitude – already present in some degree in some institutions, but yet to emerge in others. Our central theme is as old as the Declaration of Independence – that everything Americans do should be measured by its effect on the rights and duties of "all Men," Because Americans need to be self-conscious citizens of the world

"Each American institution might usefully create its own tailor-made checklist for the interdependence era, from such general urgings as these:

"We can express our organizations' purposes in world terms, as our Founding Fathers did 200 years ago.

"We can bring non-Americans into our future planning.

"We can place the leadership of any overseas operations in the hands of local non-Americans, just as soon as they can take it on.

"We can make sure our house organs and other publications are carrying news and opinion about international developments that affect our organizations' purposes."

We can focus on American interdependence in some of our year-round local activities and in part of our annual conference or management meeting.

"We can ask ourselves, from day to day and month to month, are we doing as much as we can to reflect the fact of growing interdependence in our own plans?"

"We can encourage those activities, educational and cultural, which seek to broaden American understanding of other peoples, their heritages, histories and aspirations." (pp. 89-91.)

The American Role in Global Politics

Cleveland concludes his last chapter, "Attitudes in Transition," with these words: "The third try at world order will require much of Americans, because they happen (or have chosen) to be citizens of the only nation that is truly global in its reach. But maybe we need this new adventure in 'world order politics' as an instrument of American self-renewal – that is, to get our tall ship back on a course that has history with it, not against it." (p. 100.)

Cleveland's book carefully outlined the goals and philosophy of the elite who are seeking to develop a community of nations and eliminate the power and influence of the nation-state. The American people have a clear choice ahead. Will they embrace the world order politics outlined by Cleveland and the elite financial oligarchy or will they choose to maintain their freedom and sovereignty in a nation-state environment. The decades ahead will be full of great challenges and ideological battles. The key question is whether the nation-state is strong enough to withstand the onslaught of powerful global forces seeking to forge a "New Imperial System."

9. Economic Disarmament – The Role of the International Chamber of Commerce

Introduction

In 1938 George L. Ridgeway, an Associate Professor of History at Wells College, wrote a revealing volume entitled *Merchants of Peace – Twenty Years of Business Diplomacy Through the International Chamber of Commerce, 1919-1938*. In the opening paragraphs of the introduction he said:

"The idea of an international regime of law based upon popular consent and sustained and developed by organized opinion throughout the world was implicit in the prewar democratic conception of a world parliament which gave birth to the League of Nations....

"Prewar internationalism embraced ambitious attempts to give precise institutional form to the conception of public opinion as an instrument of international action. The Socialist International was perhaps the most dynamic of these efforts. All these organizations had as their objective some form of cooperation action.... Among them the International Congress of Chambers of Commerce was notable as an institution devoted both to the organization of opinion and to cooperative efforts at technical research....

"The postwar years of European reconstruction saw this business international reborn into the new world parliamentary regime centered at Geneva. The story of the organization of the International Chamber of Commerce...is, in fact, meaningless apart from the history of the early days of postwar reconstruction. The discussions of the true organization conferences held at Atlantic City and at Paris throw a revealing light upon the economic forces which motivate international relations centering in the crucial meetings of the Allied Supreme Council, the Council of the League of Nations, the first Allied-German conference of Spa, the International Financial Conference of Brussels, and the Brussels Reparations Conference of Experts...." (New York: Columbia University Press, 1938, pp. 3-4.)

The Transfer of Political and Economic Sovereignty to International Bodies

Professor Ridgeway is telling us three basic things in his opening remarks. First, there is a concerted and coordinated effort to transfer political and economic sovereignty from the nation-state to international bodies. Second, the international bodies, which are to possess rule-making authority, are to be molded or adapted to public opinion so as to secure their construction and operation. Third, there are "economic forces" in the world which includes, of course, the prime economic forces, multinational corporate directors, international bankers and investment bankers who are designing, sponsoring and implementing policies which are designed to alter international relations. The intended result is a transformation of the nation-state world based upon economic nationalism into a single global economic unit. To accomplish this long-range goal the corporate directors are willing to support and cooperate with organizations such as the Socialist International, etc.

The Objectives of the International Chamber of Commerce

Professor Ridgeway proceeds to outline one of the predominant objectives of the I.C.C.:

"...The newly founded I.C.C. became the center of a movement by liberal business men which had as its objective the overthrowing of the surviving wartime domination by governments of international economic relations. This group of business liberals included such important leaders as Clementel, Pirelli, Leaf, Sir Felix Schuster, Willis H. Booth, Owen D. Young, Roland W. Boyden, Filene, Nelson Dean Jay, Henry Robison, William Thys, Edstrom, H.R. de Mosch, Francis Hlavacek, and K. A. Wallenberg...." (Ridgeway, p. 4.)

The Destruction of Economic Sovereignty

In other words, one of the main goals of the I.C.C. was to destroy the economic sovereignty possessed by national governments. It is interesting to note that Professor Ridgeway used the phrase "surviving wartime domination." Undoubtedly he is referring to that fact that war has a tendency to centralize government control.

During and after the First World War there were attempts, some successful, of transferring economic sovereignty to the League of Nations, and to the Executive Branch of the United States Government. Professor Ridgeway continues:

"...The history of the I.C.C. is the story of international cooperation by representative businessmen.... Freedom of the I.C.C. from political control [of nations] has allowed the development of a unique relationship between business and government in the international sphere. This relationship has not only permitted the I.C.C. to exert a powerful nonpolitical influence upon the international aspects of the vast and complex systems of technical and business law-making and administration centered at Geneva, but it has also made it possible for the I.C.C. to formulate a business policy and to intervene in the three major political-economic international questions of the postwar era: reparations, war debts, and trade barriers...." (Ridgeway, pp. 4-5.)

Technical Facilities Designed to Promote a Global Economic, Trade and Banking System

There is currently centered at Geneva the largest assortment of technical facilities in the world designed to promote and sustain a global economic, trade and banking system. Professor Ridgeway noted:

"...All the wealth of technical competence available in Geneva for the reconstruction of international finance was bared by sovereign states from the reparations and war debts scene. League [of Nations] technicians were permitted to enter only when actual collapse had either taken place or was imminent, as in the case of Austrian and Hungarian reconstruction. The businessmen of the I.C.C., however, were not subject to government control. Experts from its membership were on the spot from the very beginning in the ranks of the Allied governments, and business leaders from the I.C.C. participated in League reconstruction in Central Europe. The I.C.C., moreover, afforded an opportunity for carrying out, with the full participation of American business, that policy of nonpolitical cooperation which had been a feature of the United States' foreign policy since the war. Consequently, the I.C.C. became a clearinghouse for important lines of influence and interest. The Allied interest, the League reconstruction interest (reflecting more nearly an international point of view), the American interest, and finally the German interest were all ably represented within the I.C.C. in the formation of an objective business policy on the crucial postwar problem of a settlement of war costs. The final acceptance by governments of the settlement of reparations by two committees of businessmen, drawn largely from the council of the I.C.C., was not a historical accident. The Rome plan for world restoration drawn up by the second congress of the I.C.C. preceded the Dawes plan. Nor were the dates of the Washington I.C.C. congress and the Hoover moratorium wholly a matter of happy coincidence. The story of the evolution of international policy from reparations through European reconstruction to world restoration parallels in

large part the history of business thought and action within the organization of the I.C.C." (Ridgeway, pp. 5-6.)

The Postwar Period was Planned by Powerful Businessmen

It is apparent that the postwar period of the 1920s and 30s were carefully planned by powerful businessmen throughout the world. Businessmen and international bankers instigate and control international economic, monetary and trade policy. Their control over these vital areas has been apparent since the 1900s and earlier. Professor Ridgeway verified these observations when he said:

"...The evolution of postwar economic policy dealing with the problem of world restoration raised the question of trade barriers and tariffs. Here again the I.C.C. served as a clearinghouse for the powerful business interests which control the formation of international commercial policy...." (Ridgeway, p. 6.)

Powerful Business Interests Control the Formation of International Commercial Policy

There are, as noted above, "powerful business interests" which have controlled the "formation of international commercial policy" since the early days of the British Empire. The business leaders are now spread not only in "The City," but throughout the world. One way to bring to pass a single global economic unit covering all continents is to construct an international body designed to lower tariffs. Professor Ridgeway elaborated on the fact that the "powerful business interests" were preparing such commercial and trade policies in the 1920s. Their goal was to progressively lower tariffs until we reached a zero-base tariff system for all nations. Trade and commerce would be controlled at the international level through a global institution such as the proposed International Trade Organization of 1948, the GATT, and the proposed Production and Trade Organization of 1980. Professor Ridgeway states:

"...The disasters which have followed the failure of the 1927 movement for economic disarmament mark the bitter ending of successive national policies conceived in the supposed interest of national economics assumed to be isolated by national frontiers from outside influences. Although the I.C.C. was unable to rally certain powerful business forces (not only in the United States and France) to the cause of tariff reform in time to avert present calamities, its continued advocacy of world economic disarmament has contributed to a second world movement for tariff reform, led this time by the United States.

"Into this new movement for economic disarmament the I.C.C. has thrown all its influence. In 1935 under the leadership of Fentever Van Vlissinger the I.C.C. joined the Carnegie Endowment for International Peace in setting up a committee of economists and business men, after the manner of the Dawes committee, with instructions to conduct an exhaustive survey and study of the principal aspects of

international economic relations. This committee of experts issued a series of documents and list of recommendations based upon the fundamental principle 'that world peace and a return to prosperity through the revival of world trade are one and indivisible.' The work of the committee of experts has been made the platform of a world-wide effort by the I.C.C., directed by the recently elected American president of the International Chamber [of Commerce], Thomas J. Watson. The new president is well known as an ardent supporter of enlightened trade policies...." (Ridgeway, pp. 6-7.)

The Lowering of Tariffs Throughout the World

It is interesting that the I.C.C. considered the lowering of tariffs in the United States and throughout the world as "economic disarmament." It is, in reality, economic disarmament when one considers that the so-called practice of free trade allows importing nations or industries to destroy a nation's industrial base through unfair business practices, thus disarming the country. Professor Ridgeway next outlines the distinguishing feature of the I.C.C.:

"...The strength and driving force of the I.C.C. are the result of the combination of technical ability and economic power which distinguishes this world association of businessmen. The I.C.C. is a technical bureau of a unique character. It is a bureau set up on popular representative lines. The working members of the bureau and representative businessmen, organized in national headquarters of the I.C.C. maintained in Paris, is not, strictly speaking the bureau, but the secretariat of the bureau. The bureau itself is composed of experts who are at the same time representatives of powerful economic interests...." (Ridgeway, pp. 7-8.)

The Development of a World Commonwealth

Professor Ridgeway concludes his introduction by pointing out that one of the larger goals of the I.C.C. is a system of global governance where the nation-state is slowly phased out of real existence.

"...The ideal of a world commonwealth based upon a community of economic interests is at the back of all international economic cooperation. The I.C.C., in the form of its organization, has attempted to embody this ideal in a growing, living institution...."

"It [the I.C.C.] has sought to cooperate with all classes and groups in the peaceful solution of common business problems of international interest. The World Economic Conference of 1972, for example, saw the representatives of the I.C.C. and of the International Labor Organization standing shoulder to shoulder for the cause of economic disarmament against powerful national industrial interests. These cordial relations between the I.C.C. and the I. L. O. are indicative of the common interests of business management and labor in great international economic enterprises, the primary objective of which, when considered as part of

the larger interest of a world commonwealth, are a higher standard of living and a more abundant life...." (Ridgeway, pp. 8-9.)

The Tremendous Influence of Bankers and Merchants in London

Merchants of Peace was divided into five parts by Professor Ridgeway. In Part I entitled, "Prepay – A Business Men's International," he outlines the tremendous influence of the bankers and merchants in "The City" of London.

"...The origin of postwar collaboration in the field of economic policy is to be found in the prewar capitalist system. International cooperation had developed to an extraordinary degree when we consider the instability of the international political foundations upon which it was built. The capital of the world economic community before the war was London. Under the shelter of the liberal imperial authority at Whitehall, but never overshadowed by it, the City of London exercised the major control over the world's capital markets and through these markets over the great process of the production and distribution of wealth..... It was based upon a very large and complex system of business cooperation which had gradually been established to meet the needs of...profitable investment all over the world. Its development was connected with the expansion of the British Colonies, but it far transcended in influence and authority the limits of the Empire. The concentration of resources for such a vast free-trade area in one center automatically created a controlling influence in world finances. Any study of the history of international loans before the war would lead us straight to the square mile which comprises the City of London.

"The financial control centered in London before the war was supplemented by the growth of an international consciousness throughout the economic world...." (Ridgeway, pp. 13-14.)

Concentration of Political and Economic Power in London Through an Overshadowing World Financial Combine

Thus we see the economic and political power of the 18th and 19th centuries, that was concentrated in an area of London known as "The City." It is within this small area that the international bankers, merchants and corporate directors controlled the world's financial system. London was the capital of the world as far as international finance and trade was concerned. It maintained this position until the early 1900s when new financial cities, such as New York, were created. Professor Ridgeway noted:

"...The new conception of national monetary policy as a part of an international policy was necessitated by the passing of the complete domination of the City of London over the markets of the world. Changed conditions involved the substitution of an international authority for the authority of The City. In the prewar capitalist world such principles as those laid down in the memorial of 1920

(a document prepared by leading bankers and businessmen of the Western world containing recommendations on how to review world trade and the procedure for granting of credits) were quietly applied through the cooperation of the great banking houses and their international ramifications centralized in the City of London. The war had forced the widening of this overshadowing world financial combine through the sale of securities and currency inflation until it included a large section of the general public over a great geographical area. The very foundation of the prewar system of control was a...world monetary standard anchored to sterling. World-wide depreciation had resulted in the undermining of this basis and threatened the collapse of the entire system. To save this foundation, (banking) built of 'the savings of the past,' the memorial asked the people of the world to cooperate.

"The sweeping character of the revolution which they had accomplished within the inner financial citadel of the capitalist system finds no more striking illustration than the popular terminology of the memorial of 1920. The City was no longer the controlling partner in the world's business...." (Ridgeway, pp. 43-44.)

The Breakup of the Old World Order

World War I signaled the breakup of the old world order or concert of powers in Europe. The United States was to now actively participate in the development of a new concert of power and was soon to emerge as the leader of the postwar system. It would serve this role from 1945 until 1971. Professor Ridgeway notes the difficulty which the Allied powers had when they attempted to bring the United States into the financial combines of the world:

"...The interest of the Allied and associated powers in reparations had forced them into a position somewhat similar to that of a giant holding corporation, which dominated the world's economic life. Private enterprise must wait the decisions of this overshadowing international combine before it could act with any certainty of the future. The withdrawal of the United States, who had been the largest shareholder in this combine, complicated the problem beyond measure, for it placed the major part of the company's assets under the shadow of a huge and indefinite mortgage. Nevertheless, the course of events was ominous. The minority shareholders in the huge financial undertaking of the war were therefore forced to attempt to draw up a settlement. This settlement involved first of all a settlement of the part of the common enterprise which was in the province of their control – reparations. Accordingly, during the first treaty year, Allied statesmen sought informally to come to an amicable agreement upon the percentage of the total reparations claim to which each government was entitled and upon the total amount to be collected from Germany...." (Ridgeway, pp. 50-51.)

Bailing Out the Financial System of Germany

The withdrawal of the United States from the financial combine of Europe was an official withdrawal meaning the United States Government. American bankers and businessmen in concert with their European allies were attempting to bail out the financial system of Germany with United States money from the taxpayers. The bankers and businessmen wanted the United States to back the German reparations thereby guaranteeing that the bankers and businessmen would totally recover from the war. Professor Ridgeway states that Carter Glass, Secretary of the Treasury, turned the European governments over to private investors which temporarily frustrated the goals of the financial combines of Europe. He said:

"...The limits of American governmental assistance to European and American business reconstruction interests were set down by Secretary Glass as follows:

"The government of the United States cannot tax the American people to meet the deficiencies arising from the failure of the governments of Europe to balance their budgets, nor can the government of the United States tax the American people to subsidize the business of our exports. It cannot do so by direct measures of taxation, nor can it look with composure on the manufacture of bank credits to finance exports when the requirements of Europe are for working capital rather than for bank credits.'

"In the view of the United States Treasury, 'the demand for a resort to such impracticable methods as government loans and bank credits would cease' when European peoples and governments returned to the principles of sound finance and decided 'to live within their incomes, increase production as much as possible and limit their imports to actual necessities;' for foreign credits sufficient to cover adverse balances would most probably be forthcoming under such circumstances from private investors. Having turned European governments over to private investors, the Secretary closed with the classic American advice on reparations security:

"There is no more logical or practical step towards solving their own reconstruction problems than for the Allies to give a value to their indemnity claims against Germany by reducing those claims to a determinate amount which Germany may be reasonably expected to pay, and then for Germany to issue obligations for such an amount and be set free to work it out. This increase of Germany's capacity to pay will restore confidence and improve the trade and commerce of the world. The maintenance of claims which cannot be paid causes apprehension and serves no useful purpose.'

"...Secretary Glass' denunciation of governmental aid for the European reconstruction program, it should be noted, was applied in the same unsparing terms to American export subsidies of every description. The Secretary's policy called for a relaxation of government control in the United States as well as abroad.

The success of this policy was plainly dependent, as the Secretary asserted, upon the reestablishment of the freedom of exchanges both in goods and in gold. In short, the policy of the United States government in 1920 was directed toward taking government everywhere out of business and basing reconstruction upon business cooperation. This policy, it should be noted, was in sharp disagreement with the demands for the use of political control in economic affairs evident in the business planning at the International Trade Conference at Atlantic City. American business interests were destined eventually to oppose successfully the application of this philosophy in the matter of European reparations. The principle of political control of domestic markets, however, was to find wide application under American leadership in the general race in tariff armaments which has characterized postwar economic history...." (Ridgeway, pp. 47-48.)

Control of the Tariff Policy of the United States

American businessmen and bankers were hopeful of using the government to further their long-range goals for control and domination of the world in concert with their counterparts in Europe. Their goal was to place officials in key places and then for them to guide United States' policies along predetermined lines set down by those in New York, London, Paris, etc. Eventually the bankers and businessmen captured the Executive and Judicial Branches of the government and made substantial headway in controlling certain Congressmen. Professor Ridgeway admits that American businessmen were successful in the tariff war. Control of the tariff policy of the United States government was transferred to the Executive Branch in the 1934 Trade Agreements Act.

Laying the Foundation for a New International System

From the writings of Professor Ridgeway the reader comes to the quick conclusion that postwar economic planning was far more extensive than many had imagined in or out of government service. The global planners were busy laying the foundation for a new international monetary, finance and trade system. It would affect almost every person on earth in one way or the other.

The Almost Invisible Postwar Planning Movement

Professor Ridgeway continues his discussion of the almost invisible reconstruction movement or postwar planning by the financial combines of America and Europe:

"...The activity of the League [of Nations] itself was but indicative of the great movement for reconstruction which was going on outside the limits of official government channels. This movement centered about the activities of businessmen in Europe and America. It found collective expression, as has been pointed out...in the scheme to organize the International Chamber of commerce. American liberal

business opinion...found a united purpose in the project of a nonpolitical world organization of businessmen....

"The movement toward reconstruction was, in fact, only visible in its narrowest political aspects in the governmental conferences of Allied statesmen...." (Ridgeway, pp. 55-56.)

Powerful Economic Forces Guiding International Relations

The reason that postwar planning was almost invisible was because it was being engineered not by governments, but by the powers which preside over the fate of nations. Professor Ridgeway next outlines the founding of the International Chamber of Commerce.

"...The Organization Conference of the International Chamber of Commerce revealed the reconstruction movement in transition from an Allied to an international organization. This transition in organization was parallel in the sphere of policy. The discussions of the conference show the beginnings of a return from the coercive conceptions of war to the normal cooperative business concepts of peace. The conference divided on these lines, some advocating a return to normal laissez-faire business procedures and others a continuation of some form of special governmental or quasi-governmental aid involving the use of political authority. This division was accentuated in the discussion on financing the reconstruction of the devastated region. The influence of the American investment market upon this question was apparent in the proposals to utilize reparations bonds as a basis for reconstruction financing. The possibility of the need for cooperation as well as coercion in the reparations end of this transaction was foreshadowed....

"It would be difficult to find a more illuminating expose of the economic forces motivating international relations than that presented by the representatives of these forces themselves in the frank, unofficial exchange of views which took place at the Paris business conference.

"Representation of French industry and the large delegation of a hundred and forty prominent American businessmen served the immediate purpose of bringing American business to grips with the problems of Allied reconstruction market...." (Ridgeway, pp. 59-60.)

Reforming and Strengthening the International System

The majority of postwar economic planning by the global industrialists and bankers surrounded the expansion and revitalization of the trade, monetary and finance system which had developed over the last two centuries. Reforming and strengthening the global system were predominant in their minds, since governments were mere tools of these powerful forces. They were seen as instruments which could be used to further their long-range plans. Siphoning the

people's money through taxation to further guarantee and expand their private projects was seen as a necessary step in furthering the financial empires of the industrials or directors of multinational enterprises and global bankers.

Laying the Foundation for International Cooperation

Professor Ridgeway next proceeds to outline the organization of international reconstruction. An International Financial Conference was held at Brussels on September 24, 1930. At this meeting, according to the professor, the "foundation of the useful work of international cooperation in economic affairs, carried on by the League of Nations, was laid down...." (Ridgeway, p. 102.) He states: "...To facilitate the formulation and execution of [postwar economic] policy so evolved, industrialists and businessmen have been invited to cooperate with the result that an amazing degree of international economic integration had been achieved...." (Ridgeway, p. 92.)

The Need to Establish Central Banks

"...A general program was elaborated, including the freeing of banks of issue from political pressure and insuring their future operation solely on the lines of prudent finance, the stopping of further issuance of governmental and municipal credit and the refunding of floating debts, the use of credit solely for real economic needs controlled merely by the normal influences of the rate of interest, the freeing of commerce as soon as possible from control and impediments to international trade, and the avoidance of all superfluous expenditure. The possibility of international cooperation in national reconstruction was foreshadowed in Resolution XIV, proposed by the commission on currency and exchange. The resolution read:

"In countries where there is no central bank of issue, one should be established and if the assistance of foreign capital were required for the promotion of such a bank some form of international control might be required." (Ridgeway, p. 98.)

The Call for a World Central Bank

The International Financial Conference was proposing that central banks, such as the Federal Reserve, be free from "political pressure." In other words, central banks were to be free of governmental regulations and were to remain instruments of the private international bankers. Another major proposal of the conference laid the groundwork for the worldwide reductions of tariffs and the so-called doctrine of free trade. Remember this is 1930 and we can see that elaborate postwar economic plans of a global nature were being advanced upon conference participants. These plans were formulated by the international financial combines of the world. The conference also called for the establishment of central banks in those countries where they did not exist. Central bank cooperation was also

promoted when one of the participants "proposed the creation of...an independent bank of issue under international management...." (Ridgeway, p. 98.)

Establishment of the Bank for International Settlement

The Bank for International Settlements would be formed shortly in Basle (Switzerland), fulfilling part of this concept. The conference also called for military disarmament.

The Encouragement of Equilibrium in the International System

The Allied nations owed the United States \$11,000,000,000 as of March 1, 1920. Professor Ridgeway records an interesting remark made on this subject by one of the conference participants.

"The grave dangers inherent in the position of the United States as the greatest creditor nation and the greatest importer of European goods were discussed at some length in [G.] Vissering's [Dutch participant] outline of the world monetary situation. Vissering pointed out that the debtors of and purchasers from the United States would be compelled to bid against each other in the open market in order to be able to secure a part of the insufficient number of dollars for remittance purposes. The gravity of these circumstances was increased by the fact that this exceptional position of the United States must inevitably obtain for a long time. 'In a word' said [G.] Vissering, 'is it not to be feared that a situation would arise fatal for the debtor countries but eventually also very unfavorable for the U.S.A.' A fresh equilibrium would in the long run of necessity be arrived at, but only after and at the cost of an enormous amount of trouble and misery, a further dislocation of prices and of social conditions in the greater part of the world, and the encouragement of a revolutionary and Bolshevik spirit. The United States, Vissering went on to predict, would eventually be affected by the recoil of all this.' (Ridgeway, pp 97-98.)

What G. Vissering was acknowledging is that the Communist menace would be allowed and encouraged to grow to allow "equilibrium" in world affairs.

The Ter Muelen Plan

Professor Ridgeway next gave the reader a brief overview of the Ter Muelen plan which was adopted at the conference.

"...The question of credit was considered very fully by the conference; the result was the drawing up of a general plan of international cooperation known as the Ter Muelen Plan.... The plan...provided for the constitution of an international commission, under the auspices of the League of Nations, consisting of bankers and business men of international repute, appointed by the Council of the League, with the power to appoint subcommissions to exercise the commission's authority

in participating countries. This commission and the subcommissions acting under its authority were to act in the capacity of an international agency for supervising the issuance of credits to needy countries....

"The procedure outlined by the plan required, first, the placing of specific assets in the hands of the commission for examination and assessment in gold value, as security for commercial credits to be granted by the nationals of exporting countries. The participating government should then be authorized to prepare bonds to the gold value approved by the commission, the date of maturity and the rate of interest to be determined by the participating government in agreement with the commission. The service of these bonds was to be secured out of the revenue of the assigned assets. The administration of the assigned assets, while in the first instance placed in the hands of the participating government, would be subject to transference to the commission at the decision of the Council of the League of Nations under the commission's application. The bonds, having thus been issued in accordance with the recommendations of the international commission, were to serve as collateral security for imports by nationals of the participating state. It was stipulated that the bonds should be made out in such currencies and in such denominations as should be applicable to the particular transaction in respect of which they were issued. An extensive control over the uses of these bonds was provided by the further stipulation that all applications to participating governments must furnish proof that the imports for which the bonds were to be used had been approved by the international commission, and it was provided that each bond should be first countersigned by the commission in proof of registration. After the transaction had been completed the bonds were to be returned to the government of issue. The plan provided for the assignment of the revenue from the assets, to the service of the bonds, for the purchase of foreign currencies sufficient to meet at their due date the coupons of the bonds. Provision was made for the establishment abroad in appropriate currencies of sinking funds for redemption of ten percent of the bonds at maturity and for the establishment of a special reserve in one or more foreign currencies for the redemption of bonds which might be sold in case of default in the original transaction...." (Ridgeway, pp. 99-100.)

The International Plan of Reconstruction

This meeting was of tremendous importance in furthering international financial cooperation among the nations of the earth. Professor Ridgeway concludes his discussion of this conference as follows:

"...Thus an international plan of reconstruction, in opposition to Allied and national plans, was brought forth at Brussels. The Ter Meulen scheme was itself the result of years of study and discussion in circles of experts. The Brussels conference, therefore, brought the two systems of reconstruction clearly in the open. The Allied plan...in the last analysis rested upon the combination of Allied interests. On the other hand, the international system of reconstruction, in process

of evolution, was based upon the realities of present business assets in a world order, dominated not by surviving alliances but by the requirements of normal international trade. These two systems were to contend for mastery over international relations. The conference at Brussels, by providing an airing for plans of international cooperation, served to concentrate public opinion upon the new postwar problems. The idea of considering questions of national public finance in an international conference is in itself indicative of the change which had taken place in economic affairs since 1914. The detailed program of international financial assistance embodied in the Ter Meulen plan was a specific product of this new international philosophy.... (Ridgeway, pp. 100-101.)

Creation of a New World Order

The old world order dominated by the financial combines of Europe were being challenged by growth and dissension. A new world order was thus in the process of development. There is no question who maintained financial supremacy in the new order – the same powers as before only now enlarged to add new members.

International Conferences Used to Promote the Plans of the Financial Powers

International economic, financial or trade conferences are merely educational facilities used to instruct the participants in a particular viewpoint. Concepts, policy recommendations, etc., had been worked out beforehand by the technicians of the financial power structures. In other words, the plans which had been preconceived by the key bankers and businessmen are discussed and introduced at various conferences by close associates. This process guarantees the desired results. Professor Ridgeway illustrated this process when he said:

"In the discussion of the finance group of the First congress of the International Chamber of Commerce, London, June 27 to July 1, 1921, Sir Drummond Fraser, organizer of the Ter Meulen scheme, asserted that the scheme had been threshed out in almost every possible detail for at least two years before it was launched at the Brussels conference." (Ridgeway, p. 100.)

The Construction of a Single Global Economic Unit

A new era was dawning upon the world. International financial cooperation between the bankers and businessmen (corporate directors) was to become institutionalized in international conferences designed to further construct a single global economic unit. These goals were stated in London at a meeting of the First Congress of the International Chamber of Commerce from June 27 to July 1, 1921. Professor Ridgeway records another interesting statement of one of the participants.

"...Alluding to the speeches made by American representatives at the Atlantic City and Paris conferences, which, he explained, he had made it his business to

read, Lord [Viscount] Birkenhead [Lord Chancellor – British government] observed that whatever the political goal of America, 'not even the Monroe Doctrine,' at any rate, as far as the world of business was concerned, could prevent the realization of the great truth that the world was one and indivisible, and that the United States of America, not only geographically but by every material standard by which the greatness of nations was measured, was a part of the world...." (Ridgeway, pp. 124-125.)

The Creation of a World State Administered by the Elite

The international bankers and corporate directors of the Western World see the earth as one single economic unit. In their view there are no independent sovereign nations. They have, therefore, from the earliest times (17th century) attempted to design rules and regulations whereby the earth could be administered as single unit. These powerful groups of men whom we call the financial combines of the world have been working steadily to bring to pass "a single world economy" in every conceivable area – finance, production, distribution, transportation, communications, education, etc. From an administrative point of view it is easier to "rule" the world if it is one unit and they control the financial system, the trade system, the production system, etc. If one understands their viewpoint and their goals, then their speeches, papers, policy recommendations, etc., which are designed to guide the nations of the earth in "one set of systems," make sense. If one looks at the financial, trade and economic history of the world for the last two hundred years it would be impossible to escape this conclusion. The facts demonstrate that their goal is a "new Imperial Order" or world state administered by elite technocrats whom they carefully select which will implement policies which have been carefully designed to maintain a system of total power in private hands.

Reducing the Nations of the World to Mere Administrative Units

The international bankers and businessmen have selected and support financially a multitude of philosophies and organizations which are designed after a period of global crises to destroy the political and economic sovereignty of every nation and reduce the populations thereof to a carefully indoctrinated status. That is why this powerful group of men support communism and such nations as China and the former Soviet Union. The USSR pushed the world by "force" into "a single economic unit" while socialist nations in the Western world are guiding the people into "single economic unit." International institutions designed and controlled by the financial combines of the world have been established to rule or "administer" the globe when total political and economic sovereignty has been transferred to them. The nations of the world will then become administrative units of a world state. This is the long-range goal of the financial combines, whether it will be achieved or not remains to be seen. Knowing "the plan" helps the observer

understand the "game of power and gain," regardless of who is on the playing field.

The Unique Global Perspective of the Elite

Professor Ridgeway, like Professor Carroll Quigley, has provided the reader with a rare glimpse into the real world of high finance and business.

The work of the London conference gives one an insight into the unique global perspective held by the leading businessmen and bankers of the Western world. The conference was divided into five groups: finance, production, distribution, transportation and communications, and devastated regions. Professor Ridgeway notes:

"...The wide range covered by the agenda of the conference carried the action of international business initiated at Paris still farther into the realm of normal peacetime affairs. The Production Group brought into the discussions of the conference the subject of raw materials, statistics, fuel economy, standardization, industrial and commercial liberty, general industrial problems, and construction. The Distribution Group took up the questions of commercial arbitration, the international protection of industrial property, the treatment of commercial travelers, unification of tariff nomenclature, import and export tariffs, embargoes on imports and exports, emigration and immigration, and calendar reform. The Transportation and Communications Group considered the work of the Barcelona conference and general transport communication problems, such as through freight trains, telegraph and telephone facilities, uniformity of ship's tonnage measurement, single bills of lading for combined transport to rail and sea, uniform international ocean bill of lading, dangerous merchandise, trade terms, port conditions and changes, free zones in sea ports, international postal service, and passports and visas. And the Finance Group carried forward the work on double taxations, export credits, control and regulation of business by the state, finishing credits, foreign banks, and bills of exchange. The debates upon these subjects and the resolutions adopted marked another stage in the international discussion of these questions...." (Ridgeway, p. 125.)

Economic Disarmament of the World

Part III of Professor Ridgeway's book is entitled, "Economic Disarmament." The first chapter of this section deals with "The Evolution of International Tariff Policy." In this chapter he notes that it was not necessary to have an orchestrated effort to reduce tariff barriers because there was already a control mechanism in place which guaranteed free trade and it was located in London. Professor Ridgeway exclaims:

"...The evolution of international trade policy was predetermined by the political-economic factors which followed in the wake of the financial

reconstruction of the European national state system. An international tariff policy was not formulated during this period for the same reason that a revival of Codenism did not menace neo-mercantilism prior to 1914. National barriers failed to cut the main arteries of trade. Before the World War factors adverse in the world currents of trade were constantly liquidated through British financial control and European imperialistic expansion. Had anyone of the close Continental tariff systems become powerful enough to dispute financial control with the great London market, this process of liquidation might have been interrupted and the main currents of international trade, unsupported by British credit policy, reduced to a mere trickle over national tariff walls. Similarly, after the war, uneconomic national divisions of production and distribution, marked off by the maze of postwar European tariff walls, were at first scarcely discernible against the postwar background of political hatred. They were later submerged in the flood tide of American goods and credits which swept in from the West upon the acceptance by European governments of the war debt settlements, the reestablishment of the gold standard, and the execution of plans for financial reconstruction under the League and Dawes regimes. Later, when a reconstructed European industrial system attempted to ship its cargoes of products in repayment, the American tariff wall loomed up out of the welter of American prosperity. The high American tariff stopped European repayment through the normal working of international trade and thrust back European goods into the restricted channels of the postwar European tariff system. The threatened blockade of European-American trade turned American and European thought to the possibility of opening other routes and other markets to free competition within the confines of Europe itself, thereby staving off the impending American credit-tariff blockade.

Paving the Way for International Trade

"The movement to hew a way for international trade straight through the economic armaments of Europe followed numerous minor attempts by international conferences to secure freer trade by the limitations of various forms of political blockade. The objectives of these preliminary campaigns, however, were limited to the conception laid down at Paris by the advocates of liberal trade policy, namely, the elimination of discrimination and retaliation from the various phases of commercial policy. In general, as has been pointed out, this movement for the elimination of war practices from economic policy ran parallel to the kindred movement for the ending of coercive practices in financial policy. Because of its limited character, however, and its necessary dependence upon success in the financial field, the formation of trade policy before 1925 never claimed more than secondary public interest. The accomplishment, whoever, of collective action in this field not only reinforced international cooperation in the financial sphere and aided in developing the system of cooperative action between the business men of the I.C.C. and the machinery of the League, as noted above, but cleared the ground for the great business movement of 1927 against the tariff system. While the League's Disarmament Section and the Temporary Mixed Committee were

breaking technical ground in the field of national security in an effort to initiate a general movement towards military disarmament in fulfillment of President Wilson's fourth point, the Economic Committee and the Economic section of the Secretariat, together with the International Chamber of Commerce, were breaking similar ground, preparatory to a general advance into the territory of nationalism preempted by President Wilson's third point, dealing with economic disarmament...." (Ridgeway, pp. 199-200.)

The Thrust for Tariff Reductions

It should be pointed out that it was the directors of the large international companies who favored free trade and were to launch in the 1920s a major effort to reduce tariff barriers. Small industrial concerns favored tariffs as a means of protecting themselves against unfair trade practices and government subsidies. The major thrust for tariff reductions came from Europe. Professor Ridgeway stated:

"Throughout the period of early postwar European reconstruction, terminating in the financial settlements embodied in the Austrian and Hungarian reconstruction plans and the Dawes plan, the need for some sort of a world conference, dealing with economic problems as a distinct from purely financial problems, was recognized by leading authorities in Europe and America. Such a conference, however, was considered inopportune before financial reconstruction had been set in motion...." (Ridgeway, p. 217.)

The World Economic Conference

This statement reveals where the real power of the world lies. The first thing to be readjusted after the war was "financial." The global banking fraternity first put its house in order and then set about to make other necessary arrangements for reconstruction of the world in such areas as trade and commerce. The time was ripe for an economic conference to move against tariffs. That conference was held in Geneva on May 4, 1927, and was called the "World Economic Conference."

The Long-Range Goal to Lower All Tariff Barriers

The main emphasis of this conference was to lower tariff walls in Europe, however, the long-range goal which was announced was to lower all trade barriers throughout the world.

In preparation for the conference the I.C.C. undertook extensive preparation. Professor Ridgeway noted:

"...The document which finally emerged from the Chamber's protracted and intensive process of international discussion was at length placed before the World Economic Conference under the title of Final Report of the Trade Carriers Committee of the I.C.C. (C.E.I.). The work of the committee was remarkable both

for the world-wide breadth of the opinion represented and for the definiteness of its recommendations....

"The great importance attached by the League [of Nations] secretariat to the report of the Trade Barriers Committee, however, lay not only in the intrinsic merit of the document as embodying the work of business experts from many nations, but also in the significance of the great business movement against trade barriers which it represented. The report was the charter of one of the most interesting and inspiring international movements since the war. There had been numerous attempts before the war by various interested organizations to mitigate the evils of custom procedure, and the I.C.C. had given definite form and a considerable measure of success to these attempts in its cooperative effort with the League [of Nations] which produced the Convention on Custom Formalities in 1923. These attempts, however, failed to win the enthusiasm of the business world. Since the days of the free-trade leadership of Manchester, there had been no such stirrings in the business world as that which centered in the new business international at Paris. Under the leadership of one of the City of London's most eminent financiers, Walter Leaf, world-wide discontent with the existing era of tariff strife was turned into a campaign for free trade. The campaign was vigorously waged by the president, the council, and the secretariat from the international headquarters of the Chamber and by the various national committees. In address after address, Leaf gave a decisive lead to a direct attack on the whole tariff system....

"The report of the Trade Barriers Committee, like the Dawes plan, carried behind it the overwhelming support of the business world....

"The clear-cut stand in the conference by the I.C.C....led to world opinion demanding governmental action in the direction of a downward movement of tariff....

"The world Economic Conference of 1927 saw some of the spokesmen for international labor and world business opinion united in a demand for economic disarmament.... (Ridgeway, pp. 229, 232, 235, 237, 244.)

The Time Has Come to Remove Tariff Barriers

Professor Ridgeway notes that the conference accepted a report which ended with this last clause:

"The conference declares that the time has come to put an end to the increase in tariffs and to move in the opposite direction." (Ridgeway, p. 246.)

Professor Ridgeway summarized the 1927 conference as follows:

"The conference declares that the time has come to put an end to the increase in tariffs and to move in the opposite direction.

"The unanimous adoption by the conference of this proposal for immediate government action in the direction of economic disarmament was a great triumph for the world business movement represented by the Trade Barriers report of the I.C.C. The World Economic Conference thereby gave force and direction to the campaign of world business for "a complete change," to quote the words of the Trade Barriers report, in the tendencies of existing tariff opinion. The conference recommended that immediate action be taken along three lines, viz:

1. Individual action by states with regard to their own tariffs.
2. Collective action through the conclusion of suitable commercial treaties.
3. Bilateral action, by means of an inquiry with a view to encouraging the expansion of international trade on an equitable basis by removing or lowering the barriers to international trade which are set up by excessive customs tariffs.

"The conference further endorsed "the unconditional most-favored-nation clause in its broadest and most liberal form" and recommended that the League of Nations "consider the possibility of establishing clear and uniform principles in regard to that clause and introducing common rules relating to commercial treaties...."

"Thus, the entire emphasis of the World Economic Conference of 1927 was placed upon the necessity of a major offensive against all barriers to international trade...." (Ridgeway, pp. 236-248.)

The Movement for Economic Disarmament

The last chapter of Professor Ridgeway's section on economic disarmament is entitled, "The Years of Commercial Treaties." He begins by stating:

"If the World Economic Conference had placed the weight of the League of Nations behind the movement for economic disarmament, it had also clearly revealed the obstacles which lay in the path of progress. International leaders now turned to the I.C.C. meeting at Stockholm for the world-wide business support necessary to carry the "Geneva program through governments...." (Ridgeway, p. 250.)

The Largest Business Conference in History

The Stockholm meeting was a success, at least for the internationalists. Professor Ridgeway noted:

"...The gathering at Stockholm in 1927 was the largest and most representative business conference which history had seen. In addition to the representatives of the various national chambers of commerce, it included the representatives of 928

of the most important economic associations in the world and 2,130 great firms and corporations. The influence of this world economic parliament was considered by League [of Nations] economic leaders a decisive factor in the struggle for economic disarmament...." (Ridgeway, p. 250.)

The Formidable Forces of Nationalism

The forces of internationalism gathered at Stockholm underestimated the power and forces of economic nationalism. Professor Ridgeway comments: "...National economic pressure groups barred government action by the United States and France...." (Ridgeway, p. 253.)

Economic Nationalism was Deeply Entrenched

Europe had been blanketed with commercial treaties designed to lower tariff barriers, however, economic nationalism was more entrenched than the internationalists believed. Professor Ridgeway records:

"...The causes for the slowing up and checking of the tariff reform movement and the fateful return to economic nationalism are clearly sketched by Sir Arthur Salter in a memorandum privately circulated among interested League circles on September 2, 1929, the eve of Briand's appeal in the Assembly for a "United States of Europe." The conference's tariff offensive, in the view of Sir Arthur, was being defeated by "those private interests" which had developed business under the shelter of trade barriers. Sir Arthur wrote:

"These private interests are better organized, more vocal, and more politically effective, than the general public interests on the other side; and are much more conscious of what they would stand to lose than the other business interests (such as exporting industries) of what they would gain. Exporters and industries which would certainly gain by a reduction in tariff, even those of their own country, have been disappointingly indifferent when their support might have been decisive.'

"With this failure of business support Sir Arthur associated the deteriorating influence of American tariff policy, at that time in its final stages of formation. The influence of American tariff policy was particularly noteworthy, as was pointed out in the second report of the Economic Consultative Committee, through the implicit American threat to low-tariff countries by the operation of the most-favored-national clause. The ultimate extent of the disastrous influence of the Hawley-Smoot tariff act, finally adopted by the United States in 1930, is clearly indicated in any study of the subsequent era of tariff retaliation...." (Ridgeway, pp. 258-259.)

The Hawley-Smoot Tariff Act was Designed to Protect America

The free trade bias of Professor Ridgeway surfaced in the above quote. The Hawley-Smoot Tariff Act of 1930 was passed by Congress because certain key

congressmen knew that the internationalists were bent on dominating America's industry and bring it under international surveillance and rules. The tariffs were raised to protect America's industrial base. Professor Ridgeway concludes his chapter with these words:

"...The failure of American and European business leadership to carry through successfully the combined League and I.C.C. tariff offensive points to the inadequacy of national political machinery. The voices of a reasonable national policy were lost in the clamor of the chaotic legislative lobby of which the American Hawley-Smoot tariff lobby was the most notorious. The same glaring defect in national political organization was also to prove largely responsible for the failure of governments – the American government in particular – to work out a series of progressive solutions in the financial field of reparations and war debts. The early financial reconstruction of Europe was not a definitive settlement but rather the first step in a progressive liquidation of outstanding war costs. The eventual financial collapse was the result of the inability of the national state to formulate successfully a reasonable policy of change.

"The I.C.C. was incapable of following out these problems through the details of a final settlement, but the organization of business opinion was effective in providing the impetus which aided in placing these problems at crucial moments in the hands of experts largely drawn from the ranks of its own leadership.

"Five years later the United States embarked upon a program of reform in tariff making which represented a belated attempt to apply to the formation of national economic policy the technique of economic cooperation evolved in the international field. The methods adopted by the American Department of State in the formation of the Hull tariff policy mark the substitution of orderly planning for the functioning of the notorious tariff lobby. Those export interests, whose lack of influence in tariff making Sir Arthur Salter regretted in 1929, were in 1934 at last granted the right of a full hearing in Washington...." (Ridgeway, p. 259.)

The Forces of Internationalism Capture the Executive Branch and the Judicial Branch

From the above quote it is obvious that the internationalists had come to the conclusion that national governments must be controlled and utilized to promote policies conducive to the construction of a global system of governance. In the United States the internationalists have been successful, but not without a tremendous effort. After engineering a depression to undermine economic nationalism and sovereignty in America, the internationalists were able to place one of their trusted colleagues in the White House. Subsequently, Roosevelt socialized the United States through the New Deal. In 1934, Congress passed the Trade Agreements Act which transferred from Congress to the Executive Branch control over foreign commerce. Tariffs began to steadily decline to their present,

almost non-existent state today. In 1930, the forces of internationalism succeeded in capturing the Executive Branch of government. Two decades later, the Judicial Branch had also fallen under their power. During this time many influential Congressmen also abandoned their constituents and the principles upon which America was based and supported the internationalist viewpoint. From 1934 until the present, America has witnessed the steady growth of government and the relinquishment of political and economic sovereignty to international bodies.

Securing Coordinated Effort at the International Level

Part IV of Professor Ridgeway's book is entitled, "The Diplomacy of Technics." In a chapter of this section entitled, "The Business of the International Chambers of Commerce," he states:

"...As stated in its constitution:

"The International Chamber is organized

"To ascertain and to express the considered judgment of those interested in international business;

"To secure effective and consistent action both in improving the conditions of business between nations, and in applying solutions for international economic problems;

"To encourage intercourse and better understanding between businessmen and business organizations of the various countries;

"And thereby to promote peace and cordial relations among nations.'

"The performance of these services in the world economy of business has necessitated the development of technical services in the orbit of international organization is shown by the achievements of the I.C.C. in smoothing the operation of the machinery of international business. This unspectacular but constructive everyday work of experts has, as we have observed, often given a decisive impetus to work in the field of general policy. It has been in the sphere of technical cooperation that the trends of scientific progress, when permitted work, have induced a new and more dynamic motivation for constructive change opposite to the inertia of provincial politics. In this sense, the tedious routine activities of the international headquarters of the I.C.C. deserve to be considered along with the activities of the technical sections of the League of Nations, the International Labor Office, and the International Institute of Agriculture, as one of the forces affecting the evolution of international relations. By eliminating the causes for friction at the source, the architects of technical cooperation in many instances have contributed the foundation for the structure of international agreement. On the other hand, technical cooperation is often achieved only under the pressure of events operating

in the sphere of general policy. The two spheres are constantly interacting in such a way as to make apparent the united of the whole progress...." (Ridgeway, p. 264.)

The Evolution of a World Economic Society

In a chapter entitled, "Double Taxation," Professor Ridgeway admits that the I.C.C. has aided in the evolution of a "world economic society," where the significance of the nation-state is eventually reduced to the status of an administrative unit. A world economic society is also a forerunner to a global political system. Professor Ridgeway notes:

"The power to tax is the power to destroy – the most absolute of the attributes of the sovereign state. There is no more positive evidence of the evolution of a world economic society than the steady encroachment upon this domain of national politics by the rapidly spreading network of international treaties curbing the power of the national state to tax various forms of international commerce. In the development of this most significant regime of international control, the I.C.C., through its committee on double taxation headed by the prominent Swiss banker and international authority on taxation, Robert Juilliard, has played a dominant role in cooperation with the League of Nations. In no enterprise have the League and the I.C.C. cooperated more closely than in the slow and tedious work of erecting a system of bilateral treaties on double taxation looking toward eventual international control through a multilateral treaty. The League, in attempting to coordinate governmental policy, has made full use of the I.C.C. machinery of unofficial business consultation and policy-forming on an international scale. The League of Nations has always been represented at the meetings of the I.C.C. committee on double taxation, and an official I.C.C. representative has participated in the work of the League experts. And League investigations have, in certain important instances, been conducted through the organization of the I.C.C.

"The development of an international economic society has been greatly accelerated since the war by the spread of foreign investments and the extension of industrial enterprises through international organization across national frontier. At the same time there has been a universal shift in emphasis in the method of taxation from real property to income with consequent tightening of national surveillance of the books of private business. The increase in the international character of taxable property on the one hand, and the increase in the stringency of national taxation on the other, have combined to make taxation an international problem of the greatest moment. The national income tax has made liable for taxation the total income of persons within the jurisdiction of the taxing power, whether that income be derived from property situated outside the jurisdiction or not. On the other hand, income derivable from productive enterprises has commonly been taxable at the source, no matter whether its destination be outside the jurisdiction of the taxing power or not. The general extension of the national taxing power has made conflict between jurisdictions inevitable. The business man

who ventured across frontiers on distant enterprise has found his ways hunted down by a multitude of tax collectors whose exactions were not confined to customs examinations...." (Ridgeway, pp. 279-280.)

The Erection of a Unified International Regime

Between 1920 and 1930 the League of Nations and the I.C.C. cooperated together toward "the erection of a unified international regime outlawing double taxation." (Ridgeway, p. 283.)

The Foundation of a World State Is In Place

Perhaps the reader has begun to grasp the magnitude of difficulties one confronts in building a global economic and political system, the number of organizations world-wide that are necessary to bring it about and the degree of cooperation needed. The postwar planners, as noted before, have attempted to unify the following systems at the international level: finance, industry and production, distribution, transportation, communications, education, labor, etc. Although it has taken decades to develop, the foundation is laid today and all that remains is for the outer walls to be erected and an additional structural support or two. Presently there are over 200 international organizations which in one way or another knowingly or unknowingly are promoting the construction of a global system of governance where the influence of the nation will become practically non-existent. This day does not seem far away.

The Persistent Effort to Build a World State

Although world economic and political planning may elude the citizens of the world, it has been on the minds of certain people – the international bankers and international businessmen for decades. Professor Ridgeway demonstrates the truthfulness of these assertions as follows:

"...It was the constant objective of the economic liberals of the League, of the I.L.O. and of the I.C.C. to organize a world opinion through the actual operation of the Geneva parliamentary system which would insure the eventual submission of great economic and financial issues to a parliamentary settlement. It was hoped that the crucial issues raised by reparations, war debts, and military and economic armaments would at least be assimilated to the expanding regime of practical "gas and water" internationalism, represented by the parliamentary processes of peaceful change successfully functioning in the diplomacy of technics and the reconstruction of Europe.

"The extension of such a reasonable policy of change was the constant aim of world economic planning within the organization of the International Chamber of Commerce and the League of Nations...." (Ridgeway, p. 336.)

The Forces of Internationalism Battle the Forces of Nationalism

Today, the forces of economic internationalism are arranged against the forces of economic nationalism. Hundreds of organizations at the national and international level are promoting the doctrines of internationalism and laying the groundwork for the "new Imperial System."

Visualizing the World As One Economic Unit

In a chapter entitled, "The Breakdown: A Proposal for Economic Peace and Its Rejection," Professor Ridgeway reported on an I.C.C. meeting in London (June 1933) where the businessmen were admonished "to visualize the world as one economic unit." (Ridgeway, p. 364.) Conference participants were also encouraged to "check the present drift toward...intransigent economic nationalism...." (Ridgeway, p. 364.)

The Instruments for Economic Harmonization and Coordination

The global planners, as noted before, look at the world as one unit. Professor Ridgeway explained the international philosophy of the I.C.C. and its businessmen in a chapter entitled, "The Breakdown." He called the global system the "Geneva System" because of the technical instruments for economic harmonization and coordination which are located there.

"...The Geneva system of internationalism [was] based upon the techniques of international policy-making and international action.... [It] was exemplified at the World Economic Conference of 1927 and in the Dawes and Young Committees by the inter-penetration of extranational and extragovernmental forces, such as the I.L.O., the I.C.C., and the International Institute of Agriculture...." (Ridgeway, p. 372.)

Economic Nationalism Surfaces in U.S. and Europe

In 1933 economic and political nationalism surfaced not only in the United States but in Europe. Economic nationalists had temporarily gained the upper hand causing strife to enter the arena of planned international cooperation. In other words, the postwar plans of the internationalists had been frustrated for the moment. The global planners had found that the nation-state, although severely wounded, was not dead. It was slowly recovering from the war and the economic chaos of the 1920s. It would take another war and the establishment of the United Nations system before the nation-state would be placed on the critically wounded list. "The world of 1933," however, according to Professor Ridgeway, "was a very nationalist world." (Ridgeway, p. 388.)

An Attack on Sovereignty and the Nation-State

Professor Ridgeway concludes the last chapter of his monumental escapade of the activities of the international bankers and businessmen with an attack on the concept of national sovereignty and the nation-state. He calls for a new form of nationalism where nation-states are reduced to administrative units in a global political system. He talks of international political parties, international institutions with the power of decision-making and a new world society dominated by an alliance of government and business. Professor Ridgeway concludes his essay by giving the classical argument for corporate socialism at the international level. After all, Professor Ridgeway feels that "the hope for escape" from the world of political and economic sovereignty lives in the planning of the bankers and the businessmen. The goal of the international players described by Professor Ridgeway is the "creation of" a world system of financial control in private hands able to dominate the political system of each country and the economy of the world as a whole." (Quigley, p. 324.)

A World State by the 20th Century

Professor Ridgeway argued that:

"...The nation-state system has tended to dominate the social activities of mankind. Other institutions – the church, the university, the hospital, the business corporation, agriculture, organized labor, the local community – have by material circumstances been forced into the shadow of this galaxy of omnipotent, all-inclusive national corporations, sovereign states, which have arrogated to themselves complete independence of action subject to no law but their own. But now material circumstances have changed. Will the world neighborhood created by the twentieth century, covered by a network of institutional activities which cut across all boundaries, remain passive while its entire civilization is menaced in the name of national interest? Are we to share the fate of Hellenic civilization? The hope for escape today can at least be justified in part by the strength of nonpolitical institutions of the kind described in these pages.

The Principles of International Cooperation

"The fundamental principles and the necessary devices to make effective these principles lie before us today in the constructive achievements of liberal internationalism accomplished during the postwar period of trial and error at Geneva. The principles and technique of international cooperation are embodied in Central and Eastern European reconstruction, the Dawes plan, central bank cooperation, the World Court, the I.C.C. world business court of commercial arbitration, the host of ratified and unratified draft labor conventions promulgated by thorough investigation and international consultation at the I.L.O., and the myriad of draft conventions and constructive but politically unacceptable recommendations from the finance, economic, and transit sections of the League of

Nations, the International Institute of Agriculture, and the I.C.C. This practical work by international institutions is strong enough to stand unsupported by armaments on the basis of common interest and merit alone. The effectiveness of this work designed for healing the distress of the world has been prevented by a single destructive institution – the sovereign as distinguished from the welfare state. From the national side, the problem resolves itself into the question: can sovereignty be curbed by liberal international institutions? Can acts of sovereignty be qualified by provision to substitute international cooperation in such a way as to bring into play the healing function of liberal institutions? Or, viewing the problem from the international standpoint, can a world parliamentary system be made to work? Is it possible to adapt the parliamentary system to modern international conditions?

International Opinion-Making Forces

"Within the area of national sovereignty the motive force of parliamentary action springs from opinion-forming institutions which give a tangible social expression to individual thought and emotion. This philosophy, as we have seen, League leaders attempted to apply at Geneva in the recognition accorded to unofficial representatives and organizations at League expert conferences. The device has been extended to executive conferences in the field of technical cooperation, in particular in the recognition of the I.C.C. It was attended with marked success, as we have seen, at the International Customs Conference in 1923, the chairman of the I.C.C. delegation, Clementel, presiding over one of the two conference committees and the I.C.C. delegates actually signing this formal convention with the representatives of sovereign states. In the field of major economic policy, however, this device has never been tried. The same principle, to all intents and purposes, was applied, as noted above, by the Allied powers in the appointment of committees of business men to draft the reparations settlements. At the only attempt at a world economic conference of an executive type, this well-established and successful League technique, however, was abandoned. The only nongovernmental institution permitted representation at the London World Economic Conference was the Bank for International Settlements which, however representative of world financial and economic life it may be, can scarcely be called an opinion-forming organization. The world of 1933 was a very nationalistic world. International opinion-forming organizations like the I.C.C. would certainly have encountered formidable opposition from government officials had they been admitted to the London conference. The Vienna plan, for example, of the I.C.C. might well not have resulted in a London plan in 1933 as the Rome plan eventuated in the Dawes plan ten years previously.

The International Economic Reform Movement

"There were present, however, in 1933, the elements of a considerable international economic reform movement. Had the London conference been a

representative assembly of the familiar national parliamentary type these elements would certainly have made themselves felt in the usual type of national party debate. Issues would not have been left in segments of provincial interest. The issues would have been clearly defined in terms of large national policy for the final decision of the general public within the whole area of the parliamentary regime. It was too much to expect government officials necessarily limited by precise terms of reference to divide along lines of essentially international rather than national policy. Such a parliamentary division would presuppose national officials to be members of active international opinion-forming political parties, cutting across national frontiers. It would presuppose, in fact, the familiar parliamentary type of political machine built along international lines.

The Beginnings of an International Alignment on Issues

"The national party has, in fact, provided the answer raised by similar problems involved in the extension of the parliamentary regime to the federal form of an interstate government such as the United States. The conditions for the formation of national parties in the several sovereign states of the American federal union, however, have been much more favorable than are conditions in the contemporary world for the formation of international parties of the usual parliamentary type functioning within the legal framework of the representative system. But the beginnings of an international alignment on issues of international significance can be clearly seen in the functioning of international opinion-forming organizations within a limited section of the Geneva system. The techniques of action developed by the I.C.C. in twenty years of close cooperation with official internationalism represent definite progress in the direction of such a new international alignment of opinion.

The Need for a World Economic Parliament

"The history of the League system justifies the assumption that, were the economic organization of the League of Nations enlarged along lines which would provide for a continuously functioning world economic parliament including a considerable section of nonvoting representatives of international organizations, a realignment of opinion in world parliamentary patterns would be greatly accelerated. Had international institutions in the crisis of 1931 been able to set in motion machinery through active participation in a world economic parliament, issues might have been formulated along international lines and an international leadership might have been asserted. Such a united front against economic nationalism at Geneva might, for example, have coordinated various national reform movements. Objections to "A Second Peace Conference" in 1931 might have been overcome by desperate pressure on Tardieu from an aroused world reform movement centered on a Geneva parliamentary struggle. Or had such an international alignment been possible a year later, American interest in supporting

Herriot against his own nationalists with an approach on the debt question might have been made apparent.

International Legal System

"The League, were such a procedure adopted, would have the means of bringing these international institutions into a legal system of an international character in the articles of regulation providing for the representation of such organizations. In this manner an international party system of a unique character could be introduced into the machinery of official international consultation and action. Inasmuch as international conferences do not function on the principle of parliamentary majorities but rather on the principle of attaining the maximum of agreement between sovereign states, the presence of a considerable body of nonvoting delegates would lead to no confusion. It should give ground for no valid objection. It is a matter of international record that government delegates at international conferences in which the I.C.C. has been represented have found these unofficial delegates to be of the greatest service in the work of the conference.

An International Party System

"The establishment of such an international party system would not only make possible, quite apart from the vicissitudes of party politics, the continuous participation of distinguished leaders of opinion in actual international negotiations. It would also tend to popularize enormously the League of Nations among the masses. The great advantages offered by direct participation in the debates and committee work of executive international conferences would undoubtedly inspire nationalist sentiment to seek international organization for its direct expression. Such a procedure would put a definite premium upon the formulation of national policy in terms of international interest. Thus national sovereignty, like state sovereignty in the United States, might be expected ultimately to express itself in terms of 'states' rights.' International institutions, if actively participating in such a collective system, would also be in a better position to exert influence in national legislatures in support of international policy. This has been done, in fact, very effectively by the I.C.C. in the case of Congressional hearings on the Hull tariff policy.

A Reorganized World Economic System

"In such a reorganized world economic system, international institutions would be impelled to turn from vague declarations to the practical demonstration of the profits to be derived from and the services to be rendered by collective internationalism. We need an international improvement association formed along the lines of a village or neighborhood improvement association, determined and powerful enough to force a liberal reform program in the sphere of international politics, as its local prototype has done in the sphere of local politics. The

international armaments machine will be found as vulnerable to this type of concerted attack by a united liberal front as have local political machines in the sphere of local reform.

The Task of Enlightened International Statesmen

"There is a legitimate profit interest in international cooperation held by the church, the arts, the sciences, business, agriculture, and labor – by all who live by the works of peace. It is the task of enlightened statesmanship to make this interest apparent to individuals and to enable individuals to act collectively in defense of their collective interests in international peace.

The New Techniques of International Cooperation

"The new techniques of international cooperation deserve precise application in the field of national legislation. In every national statute calling for the use of independent national sovereignty there should be inserted an escape clause drawn along the lines provided by the business statesmen who drafted the Dawes plan, providing very definitely for escape from interstate conflict by all possible measures of international cooperation. This principle should be written not only into matters of immediate dispute; it must be written into the texts of all national laws which are in the broad sense of international concern, particularly those national laws regulating national military and economic armaments. In this respect the present American reciprocity tariff act is deserving of careful study.

The Need for a New Form of Nationalism

"Liberalism must impel the nation-state to face outward upon a world filled with international realities. Such a change of view will inspire a saner, a more realistic, a new nationalism. Nationalism has always worn its most romantic luster in that society of nations where common interests have become one in a cause, which, lifted above the interests of a single nation, has become the cause of humanity itself. The great world-wide voluntary institutions clustered about the church and the university represent causes which far transcend the horizons of any nation, race, creed, or class. They are the institutions which are set for the healing of the nations.

Developing a Society of Nations

"A new nationalism alert to cooperate in the common interests of the society of nations must be brought into being. Contemporary civilization requires a readjustment of relationships between the state and those institutions which carry the seeds of a new world society. In particular, present events demand that the politico-economic partnership between the state and business in the interest of private gain be dissolved. It is a partnership limited to no particular trade. All who take dividends from the control of markets or raw materials protected by arbitrarily

fixed national tariffs or regulations must assume responsibility as business partners of the military state. Economic nationalists are the real armament profiteers. This partnership has always been a partnership with debt. It has become a partnership with death.

The Evolution of a New Partnership Between Government and Business

"The evolution of a fair and equitable partnership between government and business conceived in terms of a broader world interest has been slowly taking shape in the twenty years of business diplomacy represented by the activity of the I.C.C. in international affairs. The statesmanship of those who have labored through the I.C.C. to overcome destructive postwar nationalism with the good sense and practical idealism of international business cooperation today offers the basis of a new association between business and government...." (Ridgeway, pp. 386-392.)

The Elite Use Taxpayers Money to Build Their Global System

The alliance of business and government is nothing more or less than the philosophy of corporate socialism. The elite financial oligarchy are using the taxpayers money to build their "new Imperial System." While they have become quite adept at redistributing taxpayers dollars, they conceal and protect their wealth in offshore trusts and giant tax-exempt foundations. The use of taxpayers funds to build the new international order is the greatest case of legal plundering in world history.

Part V The Development of a Central Management System

10. Trilateralism – Blueprint for Global Governance

One of the most influential planning groups in the world, from any point of view – economic, political or social – is under the direction of the Trilateral Commission of New York City, Paris and Tokyo. The Trilateral Commission is no ordinary federation of international leaders. Its members are among the most prominent economic and political leaders in the Western World. This relatively small assemblage of internationally-minded individuals proposes to construct a "new international economic order" – a "community of nations" – made up initially of the more advanced nations.

Trilateral Commission Gains National and International Prominence

The Trilateral Commission gained national prominence in 1976 when it became known that President Jimmy Carter and Vice-President Walter F. Mondale were members of its exclusive organization. Following the inauguration of Jimmy Carter, the Commission gained international eminence when the most important decision-making positions of the Executive Branch of the U.S. Government were filled by "Trilateralists". These positions and the appointees included: Lucy Wilson Benson, Under Secretary of State for Security Assistance; W. Michael Blumenthal, Secretary of the Treasury; Robert R. Bowie, Deputy Director of Intelligence for National Estimates; Harold Brown, Secretary of Defense; Zbigniew Brzezinski, Assistant to the President for National Security Affairs; Jimmy Carter, President of the United States; Warren Christopher, Deputy Secretary of State; Richard N. Cooper, Under Secretary of State for Economic Affairs; Richard N. Gardner, Ambassador to Italy; Richard Holbrooke, Assistant Secretary of State for East Asian and Pacific Affairs; Walter F. Mondale, Vice President of the United States; Elliot L. Richardson, Ambassador at Large with Responsibility for UN Law of the Sea Conference; Gerard C. Smith, Ambassador at Large for Non-Proliferation Matters; Anthony M. Solomon, Under Secretary of the Treasury for Monetary Affairs; Cyrus R. Vance, Secretary of State; Paul C. Warnke, Director, Arms Control and Disarmament Agency and Chief Disarmament Negotiator; Andrew Young, Ambassador to the United Nations. Temporary appointments also included two Trilateralists: Sol M. Linowitz, Co-Negotiator for Panama Canal Treaty; Henry D. Owen, Coordinator of U.S. Preparations for London Summit

Former Trilateral Members in Public Service in Europe

In addition to the nineteen members of the Trilateral Commission entering the U.S. Government at top levels, nine Commissioners assumed official positions in Europe: Raymond Barre, Prime Minister and Finance Minister, French Republic; Herbert Ehrenberg, Minister of Labor and Social Affairs, Federal Republic of

Germany; Marc Eyskens, Belgian State Secretary for Flemish Regional Economy; Jean-Philippe Lecat, Presidential Spokesman, French Republic; Evan Luard, Parliamentary Under Secretary of State for the British Foreign Office; Michael O'Kennedy, Foreign Minister of Ireland; Henri Simonet, Foreign Minister of Belgium; Thorvald Stoltenberg, Secretary of State, Norwegian Ministry of Foreign Affairs; Olaf Sund, Senator for Labor and Social Affairs, Land Government of Berlin.

The Ultimate Goal of Trilateralism

Early in 1976 Richard H. Ullman, Director of the 1980s Project for the Council on Foreign Relations, outlined the ultimate goals of Trilateralism in an article titled "Trilateralism: Partnership For What?":

"...The ultimate result (of Trilateralism), to quote Zbigniew Brzezinski, the former Director of the Trilateral Commission, would be a 'community of the developed nations'. The path to that community, he wrote in this journal three years ago, runs through intensive 'regular and ever more formal political consultation' and 'common political planning with regard to problems or areas of mutual interest' in order to achieve a 'shared political perspective among the governmental bodies of the three (trilateral) units'. Governor Carter used almost the same language in addressing the Foreign Policy Association last June." (*Foreign Affairs*, October 1976, Vol. 55, No. 1, p. 5.)

The Trilateral Approach to World Order

President Carter followed the "trilateral approach" for the construction of a new global community of nations during his administration.

Piecemeal Approach to World Order

According to trilateralism "effective international cooperation can often be improved if the issues can be kept separate – what we call piecemeal functionalism." ("Towards a Renovated International System," *Triangle Paper*, No. 14, New York: The Trilateral Commission, p. viii.)

The "new world order" or "community of nations," proposed by the Trilateral Commission is to proceed in a piecemeal fashion. In a speech given in Kyoto, Japan, on May 31, 1975, titled "Trilateral Relations in a Global Context," Zbigniew Brzezinski outlined this approach as follows:

"...Our own work in this Commission, it is increasingly clear, is that of developing sustained trilateral thought on the nature and character of the needed renovated international system. I believe we recognize that the situation today is in some ways like that prevailing in 1945, when creative men did shape a system which worked, with imperfections, but worked nonetheless, for thirty years. Today

we have to engage a larger number of nations and participants in this process. And therefore the question arises, what ought to be our priorities and how do we go about it?

Eventual Political and Philosophical Accommodation with the Communist States

"In this connection, let me say a word or two about the role of the communist states in this process. I think it is essential that they be engaged. We have to seek cooperation with the communist states, pointing eventually to a political and ultimately even philosophical accommodation with them. The differences that divide us are the products of 19th century thought, increasingly less relevant to the conditions of the 20th, not to speak of the 21st century. But at the same time, we have to be aware of realistic limits to the scope of possible cooperation with communist states at this time in history.

Need to Seek Cooperation Step-by-Step and Region-by-Region

"In my own view, neither they nor we are historically or philosophically prepared to engage jointly in a global architectural effort. We still have to seek cooperation step by step, functionally and regionally, as opportunity permits it.

"...The moment may be right for some joint American-Soviet arrangements in the Middle East. Certainly in SALT the strategic relationship is being codified by the United States and the Soviet Union. And there is room for much more trade with the communist states.

Trilateral Relations – First Priority in Large Architectural Design of the Future

"But when it comes to the large, immediate, architectural issues of the day, it seems to me that the first priority still is that of trilateral relations. It is here where the philosophical basis for mutual understanding, where the political preconditions for cooperation surely exist. It is clear, it seems to me, that here is the opportunity for real architecture and initiative. I thus see, in the emerging world, our three regions still representing the more cooperative, the more vital center. I would hope that because of this we would fashion new or additional procedures for more effective consultations, for the shaping of joint initiatives for the central and global problems of our times.

New Political Caucuses Needed to Integrate Trilateral Regions

"I would hope to see the emergence of new political caucuses spanning our trilateral regions in some existing international institutions. But I would argue that the focus of much of this must be on the fashioning of a more just and equitable world order.

The Renovated International System Will Require a Tremendous Process of Creation

"...A renovated international system will now require a process of creation – much longer, much more complex – a process in which prolonged negotiations will have to be engaged and developed. It will require a process which recognizes the need for global adjustment in wealth, while creating additional wealth....

Shaping an International System Which Embraces the Entire World

"...In 1945, existing democracies shaped an international system which has been particularly efficient and desirable from the standpoint of trilateral democracies. Today the challenge which we ought to welcome is to shape a system which embraces the entire global community, and our trilateral regions can find a special opportunity in moving towards that end." (*Dialogue*, Summer 1975, No. 7, pp. 12-13.)

Admittedly, the construction of a "community of nations" is a formidable task. However, the members of the Trilateral Commission are hopeful of success.

President Carter's Former Training in Trilateral Policies

It is important to note that Zbigniew Brzezinski and Richard N. Gardner, both strategists in Trilateral policies, were President Carter's foreign policy mentors. Leslie H. Gelb quotes a spokesman near Brzezinski as saying:

"'Zbig was the first guy in the community to pay attention to Carter, to take him seriously.... He spent time with Carter, talked to him, sent him his books and articles....' For the better part of three years, Brzezinski (along) with Professor Richard N. Gardner of Columbia, had Carter virtually to himself...." (*New York Times Magazine*, May 23, 1976, p. 50.)

Zbigniew Brzezinski reportedly described Carter as "educable" while David Rockefeller, the North American Chairman of the Commission, is said to have remarked that Carter would be an "ideal politician to build on."

Carter Administration Following Trilateral Plan in Foreign Relations

Shortly after Brzezinski became Assistant to the President for National Security Affairs he was asked the following questions: "You must be aware of criticism that the Carter Administration has no sense of direction in its foreign policy.... What is your answer to that?" Dr. Brzezinski responded by saying:

"I can answer that in several ways.

"First of all, pretty much everything the President has done in the field of foreign affairs since January is the product of a deliberate planning exercise, which he supervised immediately after the election. Almost every action we have taken – I would even say every action we've taken – was part of a plan for the first 90 days of the Administration, which were meant to culminate in the London Summit. And I believe that this plan was carried out very systematically. These were not haphazard actions.

U.S. Responsibility for Building a New World System

"It is our view that we are now at a stage in history in which the United States again has to undertake a creative process of building a new world system. This must take into account the cumulative effect of all of the changes that have occurred in the past 15 to 20 years: the appearance of a massive number of new states, the extraordinary rapid decolonization, the surfacing of new social and political aspirations, the doubling of the world's population.

New Era of American Creativity

Dr. Brzezinski was then asked: "Are you looking toward a new era of American leadership in the world?" He stated:

"It may be too sharp and potentially misleading to call it a new era of American leadership. But it certainly is a new era of American Creativity, based this time on the need for a much greater degree of collaboration with others than was the case between '45 and '50 – when we were similarly engaged in a creative international effort." (*U.S. News and World Report*, May 30, 1977, p. 35.)

President Carter Praises Trilateral Commission

Early in 1976 Jimmy Carter praised the Commission for having provided him with a "splendid learning opportunity":

"In order to insure the continuing opportunity for penetrating analyses of complicated, important, and timely foreign policy questions, there is in operation an organization known as the Trilateral Commission – a group of leaders from the three democratic developed areas of current interest to Japan, North America and Europe. Subjects like the world monetary system, economic relations between rich and poor nations, world trade, energy, the future of the seas, aid to less developed countries, and other possibilities for international understanding and cooperation are first studied by scholars, then debated by members of the commission, and finally analyses are published and distributed to world leaders. Membership on this commission has provided me with a splendid learning opportunity, and many of the other members have helped me in my study of foreign affairs." (Jimmy Carter, *Why Not the Best?*, Nashville, Tennessee: Broadman Press, 1975, p. 127.)

Early Development of the Commission

It is appropriate to ask why the Trilateral Commission was initiated. In order to find the answer to this question we can consult the first Director of the Commission – Zbigniew Brzezinski.

Dr. Zbigniew Brzezinski outlined the concept of "trilateralism" when he published *Between Two Ages – America's Role in the Technetronic Era* (New York: Penguin Books, 1970).

Concerning this book, *The Nation* magazine stated, "The book's manifest function is to open a Great Debate, wide ranging and touching upon the ultimate questions about society and human nature." *Foreign Affairs* stated: "This is one of the most original books on political and social thought to appear in recent years."

A Proposal for a Community of Nations Outlined by Brzezinski

In the section of his book entitled "A Community of Nations," Dr. Brzezinski outlines the future program of trilateralism in detail. He stated:

"A community of the developed nations must eventually be formed if the world is to respond effectively to the increasingly serious crisis that in different ways now threatens both the advanced world and the Third World. Persistent divisions among the developed states, particularly those based on outmoded ideological concepts, will negate the efforts of individual states to aid the Third World; in the more advanced world they could even contribute to a resurgence of nationalism.

The Gradual Evolution of a New International System

"From an American standpoint, the more important and promising changes in the years to come will have to involve Western Europe and Japan. The ability of these areas to continue to grow economically and to maintain relatively democratic political forms will more crucially affect the gradual evolution of a new international system than will likely changes in American-Soviet relations. Western Europe and Japan offer greater possibilities for initiatives designed to weave a new fabric of international relations, and because, like America, they are in the forefront of scientific and technological innovation, they represent the most vital regions of the globe.

Western Europe is Already a Single Entity

"Though some scholars emphasize the vitality of European nationalism, the broad thrust of Western European development is toward increasing cooperation and – much more important – toward a European consciousness. For the younger Europeans, Western Europe is already an entity in all but the political respect: though still anachronistically governed by a series of provincial chieftains

(occasionally visited seriatim by the foreign potentate from Washington), their Europe is frontierless, open to unlimited tourism, to the almost unlimited movement of goods, and increasingly to the flow of students and workers. To be sure, a positive regionalism is yet to mature, but the foregoing at least provides the needed psychological basis for a new Europe. The technetronic revolution has accelerated the appearance of this Europe, and the autarkic ideas of the industrial age have little or no hold on it today.

The Impact of Science and Technology on Japan and Europe

"In Europe the impact of science and technology, though disruptive within some societies (particularly Italy, which is just completing the industrial phase of its development), has inspired increased cooperation; in Japan, however, which lacks the immediate external outlet that European unification provides for the Western Europeans and which is subject to a highly visible American military-political presence, it has had an internally aggravating effect. It tends to sharpen the nation's internal political conflicts, polarizing public opinion and rendering the future orientation of the country uncertain. The conflicts between generations evident in most of the advanced world have special gravity in Japan, given the cultural upheaval produced by its defeat in World War II and the only recently achieved balance between its traditions and modern democratic institutions. A revival of Japanese nationalism or a turn toward ideological radicalism would seriously threaten the highly tenuous structure of peace in the Pacific and directly affect the interests of the United States, the Soviet Union, and China.

An Effort to Forge a Global Community

"Accordingly, an effort must be made to forge a community of the developed nations that would embrace the Atlantic states, the more advanced European communist states, and Japan. These nations need not – and for a very long time could not – form a homogeneous community resembling EEC or the once hoped for Atlantic community. Nonetheless, progress in that direction would help to terminate the civil war that has dominated international politics among the developed nations for the last hundred and fifty years.

The Absence of a Unifying Process Between Democratic and Communist States

"Though the nationalist and ideological disputes among these nations have less and less relevance to mankind's real problems, their persistence has precluded a constructive response to dilemmas that both democratic and communist states increasingly recognize as being the key issues of our times. The absence of a unifying process of involvement has kept old disputes alive and has obscured the purposes of statesmanship.

The Creation of a Global community is the Major Task of the Next Decade

"To postulate the need for such a community and to define its creation as the coming decade's major task is not utopianism.

Deliberate Efforts to Accelerate the Process of International Cooperation

"Under the pressures of economics, science, and technology, mankind is moving steadily toward large-scale cooperation. Despite periodic reverses, all human history clearly indicates progress in that direction. The question is whether a spontaneous movement will suffice to counterbalance the dangers already noted. And since the answer is probably no, it follows that a realistic response calls for deliberate efforts to accelerate the process of international cooperation among the advanced nations.

The Movement Toward a Global Community is to Proceed in a Piecemeal Fashion

"Movement toward a larger community of the developed nations will necessarily have to be piecemeal, and it will not preclude more homogeneous relationships within the larger entity. Moreover, such a community cannot be achieved by fusing existing states into one larger entity. The desire to create one larger, formal state is itself an extension of reasoning derived from the age of nationalism. It makes much more sense to attempt to associate existing states through a variety of indirect ties and already developing limitations on national sovereignty.

The Need to Link the Soviet Union, Eastern Europe and Western Europe in Regional or Functional Forms of Cooperation

"In this process, the Soviet Union and Eastern European the one hand and Western Europe on the other will continue for a long time to enjoy more intimate relationships within their own areas. That is unavoidable. The point, however, is to develop a broader structure that links the foregoing in various regional or functional forms of cooperation. Such a structure would not sweep aside United States-Soviet nuclear rivalry, which would remain the axis of world military might. But in the broader cooperative setting, the competition between the United States and the Soviet Union could eventually resemble in form late-nineteenth-century Anglo-French colonial competition: Fashoda did not vitiate the emerging European entente.

Construction of a Global Community Will Require Two Phases

"Movements toward such a community will in all probability require two broad and overlapping phases. The first of these would involve the forging of community links among the United States, Western Europe, and Japan, as well as with other

more advanced countries (for example, Australia, Israel, Mexico). The second phase would include the extension of these links to more advanced communist countries. Some of them – for example, Yugoslavia or Rumania – may move toward closer international cooperation more rapidly than others, and hence the two phases need not necessarily be sharply demarcated.

Structure and Focus: The Need for a High-Level Consultative Council for Global Cooperation

"The emerging community of developed nations would require some institutional expression, even though it would be unwise to seek to create too many binding integrated processes prematurely. A case can be made for initially setting up only a high-level consultative council for global cooperation, regularly bringing together the heads of governments of the developed world to discuss their common political-security, educational-scientific, and economic-technological problems, as well as to deal from that perspective with their moral obligations toward the developing nations. Some permanent supporting machinery could provide continuity to these consultations.

A Global Council to Deal with Developing Political Strategy

"Accordingly, such a council for global cooperation [later established as the Trilateral Commission'] would be something more than OECD in that it would operate on a higher level and would also be concerned with political strategy, but it would be more diffused than NATO in that it would not seek to forge integrated military-political structures. Nevertheless, a council of this sort – perhaps initially linking only the United States, Japan and Western Europe, and thus bringing together the political leaders of states sharing certain common aspirations and problems of modernity – would be more effective in developing common programs than is the United Nations, whose efficacy is unavoidably limited by the Cold War and by north-south divisions.

The Inclusion of Japan

"The inclusion of Japan would be particularly important, both to the internal development of Japanese life and to the vitality of such a community. Japan is a world power, and in a world of electronic and supersonic communications it is a psychological and political error to think of it as primarily an Asian nation. Japan needs an outlet commensurate with its own advanced development, not one that places it in the position of a giant among pygmies and that excludes it *de facto* from the councils of the real world powers. The regular American-Japanese cabinet-level talks are a desirable bilateral arrangement, but Japan will become more fully and creatively involved in world affairs in a larger setting of equal partners.

Sharing Responsibility with Japan

"Without such a larger setting, there is danger that the extraordinary pace of Japanese socio-economic development will become destructive. The automatic projections of Japanese growth into the future, made with increasing frequency in the late 1960s, are misleading; they do not make allowance for the destabilization effect of the impact of change on Japanese traditions. There is a real possibility that in the 1970s Japan will undergo extremely upsetting internal conflicts unless in some way Japanese idealism is both stimulated and turned to goals larger than insular and personal hedonism. International cooperation, involving the sharing with Japan of responsibility as well as of power, could provide such an outlet.

A Global Council Could Provide a Political-Security Framework

"Such a council would also provide a political-security framework in which the security concerns of each state could be viewed in a context that takes into account the inescapable connections between such matters as Soviet policy in Berlin and the Sino-Soviet crisis, Chinese nuclear development and its implications both for Japanese security and for East-West relations in Europe, and so on. Similarly, matters such as Japanese rearmament, possibly even Japan's acquisition of nuclear arms (thought by increasingly large numbers of Japanese to be likely during the second half of the 1970s), could be viewed in terms of this broader significance rather than as a response to purely local considerations.

Technological Cooperation Between Western Europe, Japan and the United States

"Indeed, given the nature of modern scientific developments and communications, it is not too early to think of technological cooperation between Western Europe and Japan, as well as between both of them and the United States, in some fields of defense.

The Projected World Information Grid

"Political-security efforts would, however, in all probability be second in importance to efforts to broaden the scope of educational-scientific and economic-technological cooperation among the most advanced industrial nations that are becoming post-industrial and are in some regards moving into the post-national age. The projected world information grid [Internet], for which Japan, Western Europe, and the United States are most suited, could create the basis for a common educational program, for the adoption of common academic standards, for the organized pooling of information, and for a more rational division of labor in research and development.

An Information Linkage Between the Universities of New York, Moscow and Tokyo

"Computers at M.I.T. have already been regularly 'conversing' with Latin American universities, and there is no technical obstacle to permanent information linkage between, for example, the universities of New York, Moscow, Tokyo, Mexico City, and Milan.

An International Educational System

"Such scientific-informational linkage would be easier to set up than joint educational programs and would encourage an international educational system by providing an additional stimulus to an international division of academic labor, uniform academic standards, and a cross-national pooling of academic resources.

Pooling of Trilateral Resources Could Accelerate International Cooperation

"Steps in that direction could be accelerated by some symbolic joint actions. Space exploration is probably the most dramatic example of human adventure made possible by science, but currently it is almost entirely monopolized on a competitive basis by the United States and the Soviet Union. The pooling of Western European, Japanese, and American resources for a specific joint undertaking could do much to accelerate international cooperation. In addition, it may be desirable to develop an international convention on the social consequences of applied science and technology. This not only would permit the ecological and social effects of new techniques to be weighed in advance but would also make it possible to outlaw the use of chemicals to limit and manipulate man and to prevent other scientific abuses to which some governments may be tempted.

The Need for Intensive Efforts to Shape a New World Monetary Structure

"In the economic-technological field some international cooperation has already been achieved, but further progress will require greater American sacrifices. More intensive efforts to shape a new world monetary structure will have to be undertaken, with some consequent risk to the present relatively favorable American position.

The Need to Abandon Certain Restrictions on Multinational Corporations

"Further progress would in all probability require the abandonment of restrictions, imposed by Congress in 1949 and 1954, on the international activities of American corporations and on their foreign subsidiaries and plants.

The Appearance of an International Structure of Production and Financing Could Facilitate the Creation of a Free Trade Area

"The appearance of a truly international structure of production and financing would have to go hand in hand with the emergence of a 'theory of international production,' needed to supplement our present theories of international trade. Progress along these lines would also facilitate the creation of a free-trade area, which could be targeted in progressive stages.

The Soviet Union May Eventually Participate in the New Emerging International System

"The Soviet Union may come to participate in such a larger framework of cooperation because of the inherent attraction of the West for the Eastern Europeans – whom the Soviet Union would have to follow lest it lose them altogether – and because of the Soviet Union's own felt need for increased collaboration in the technological and scientific revolution. That Eastern Europeans will move closer to Western Europe is certain.

Results of East-West Arrangements

"The events of 1968 in Czechoslovakia are merely an augury of what is to come, in spite of forcible Soviet efforts to the contrary. It is only a matter of time before individual communist states come knocking at the doors of EEC or OECD; hence, broader East-West arrangements may even become a way for Moscow to maintain effective links with the Eastern European capitals.

Communist Nations May Someday Join the Common Market

"The evolution of Yugoslavia thinking and behavior attests to the fact that the communist states are not immune to the process of change and to intelligence Western initiatives. Slightly more than twenty years ago, Yugoslavia pronouncements were not unlike those of the Chinese today. Yet Yugoslavia now leads all communist states in economic reform, in the openness of its society, and in ideological moderation. In the late 1960s, it joined GATT, and Yugoslavia's association with EFTA – and perhaps eventually with the Common Market – is a probability. While still committed to the notion of 'socialism,' Yugoslavia's views on international politics are moderate, and they have had a significant impact on communism in Eastern Europe.

The East's Slow Movement Toward a Merger with the West

"Similar trends are slowly developing elsewhere in the communist world. To be sure, they are opposed by entrenched bureaucrats, but in the long run the reactionaries are fighting a losing battle. Social forces are against them, and the conservative elites are on the defensive everywhere. It is doubtful whether they can

reserve, though they certainly can delay, the trend toward a more open, humanistic, and less ideological society. The resistance of those regimes dominated by entrenched conservative bureaucracies will be further weakened if the West views the Cold War as primarily due to the fading self-serving doctrines of the Communist rulers, if it approaches the Cold War more as an aberration and less as a mission.

The Need to Create East-West Institutions to Facilitate Cooperation

"Over the long run – and our earlier analysis indicates that it would be a long run – Soviet responsiveness could be stimulated through the deliberate opening of European cooperative ventures to the East and through the creation of new East-West bodies designed initially only to promote a dialogue, the exchange of information, and the encouragement of a cooperative ethos.

The Need to Develop Common Objectives Between East and West

"The deliberate definition of certain common objectives in economic development, technological assistance, and East-West security arrangements could help stimulate a sense of common purpose and the growth of a rudimentary institutional framework. (For example, through formal links in the economic sphere between OECD and the Council for Mutual Economic Assistance [CEMA]; in the security sphere between NATO and the Warsaw Pact, and through United States-Soviet arms-control arrangements; or by the creation of an information East-West political consultative body.)

Beneficial Effects of the Large Cooperative Goal of a Community of Nations

"A larger cooperative goal would also have other beneficial effects. For one thing, it is likely that the Soviet Union would initially demonstrate hesitancy or even hostility in the face of Western initiative. Therefore, an approach based on bilateral American-Soviet accommodation – as advocated by some Americans – might prove to be abortive and would consequently intensify tensions.

Efforts to Construct a Global Community Need Not be Halted by Initial Soviet Reluctance

"But efforts to create a larger cooperative community need not be halted by initial Soviet reluctance, nor can they be easily exploited by Moscow to perpetuate the Cold War. On the contrary, Soviet resistance would only result in more costly Soviet isolation. By seeking to cut Eastern Europe off from the West, the Soviet Union would inevitably also deny itself the fruits of closer East-West technological cooperation.

Eastern European States Are Gradually Shifting Toward Greater Cooperation with the EEC and OECD

"In 1985 the combined GNP of the United States, Western Europe, and Japan will be roughly somewhere around three trillion dollars, or four times that of the likely Soviet GNP (assuming a favorable growth rate for the Soviets); with some Eastern European states gradually shifting toward greater cooperation with EEC and OECD, the Soviet Union could abstain only at great cost to its own development and world position.

Risks and Advantages of Developing a Global Community

"The shaping of such a community may well provoke charges that its emergence would accentuate the divisions in a world already threatened by fragmentation. The answer to such objections is twofold: First, division already exists, and our present problem is how best to deal with it. As long as the advanced world is itself divided and in conflict, it will be unable to formulate coherent goals. The less developed countries may even be benefiting from the internal rivalries in the developed world, which incite it to compete in extending aid; but since such aid tends to be focused on short-term political advantages to the donor, it is subject to political fluctuations and may decline as the rivalry declines in intensity.

Development of a Global Community Will Increase International Development

"Second, the emergence of a more cooperative structure among the more developed nations is likely to increase the possibility of a long-range strategy for international development based on the emerging global consciousness rather than on old rivalries. It could hence diminish the desire for immediate political payoffs and thus pave the way for more internationalized, multilateral foreign aid. While the viewing problems of tariffs and trade with the Third World are not likely to disappear, they might become more manageable in a setting that reduces both the impediments to truly international production and, consequently, a given country's stake in this or that protective arrangement.

The Underlying Motivation for Developing a Global Community

"The underlying motivation for such a community is, however, extremely important. If this community does not spring from fear and hatred but from a wider recognition that world affairs will have to be conducted on a different basis, it would not intensify world division – as have alliances in the past – but would be a step toward greater unity.

The Appearance of a Global Community Among the Advanced States Would Accelerate Development of International Institutions and a Global Taxation System

"Its appearance would therefore assist and perhaps even accelerate the further development of present world bodies – such as the World Bank – which are in any case *de facto* institutions of the developed world geared to assisting the Third World. A greater sense of community within the developed world would help to strengthen these institutions by backing them with the support of public opinion; it might also eventually lead to the possibility of something along the lines of a global taxation system.

Advantages to America of Joining the Emerging Global Community

"More specifically, America would gain several advantages from its identification with a larger goal. Such a goal would tend to reduce the increasing danger of American isolation in the world; this isolation is unavoidably being intensified by the problems associated with America's domestic leap into the future. Moreover, the United States cannot shape the world singlehanded, even though it may be the only force capable of stimulating common efforts to do so.

A Joint Response by Trilateral Countries to World Problems

"By encouraging and becoming associated with other major powers in a joint response to the problems confronting man's life on this planet, and by jointly attempting to make deliberate use of the potential offered by science and technology, the United States would more effectively achieve its own proclaimed goal.

The Atlantic Union Concept is Outdated

"The quest for that goal cannot, however, be geographically confined to the Atlantic world, nor should its motivation be even implicitly derived from security fears stimulated by a major outside power. One reason for the declining popular appeal of the Atlantic concept is the latter's association with the conditions of post-World War II Europe and with the fear of Soviet aggression. While such a concept was a bold idea at the time, it is now historically and geographically limited.

Trilateralism is a More Ambitious and Relevant Approach

"A broader, more ambitious, and more relevant approach is called for by the recognition that the problems of the 1970s will be less overtly ideological, more diffuse – they will more widely reflect the malaise of a world that is still unstructured politically and highly inequalitarian economically.

The Initiative for an Undertaking on Such a Grand Scale Would Have to Come from the U.S.

"Such an approach would also tend to end the debate over American globalism. The fact is that much of the initiative and impetus for an undertaking on so grand a scale will have to come from the United States. Given the old divisions in the advanced world – and the weaknesses and parochialism of the developing nations – the absence of constructive American initiative would at the very least perpetuate the present drift in world affairs. That drift cannot be halted if the United States follows the path which it is now fashionable to advocate – disengagement. Even if, despite the weight and momentum of its power, America could disengage itself, there is something quaintly old-fashioned in the eloquent denunciation of United States global involvement, especially when it comes from Europeans, who have shown a less than admirable ability to maintain world peace.

The U.S. Is Beginning to Seek World-Wide Arrangements

"Moreover, even the most brilliant indictment of United States policy cannot erase the fact that, despite its allegedly long record of errors and misconceptions, the United States has somehow become the only power that has begun to think in global terms and actively seek constructive worldwide arrangements. In this connection, it is revealing to note that initiatives such as the Test-Ban Treaty or the Non-Proliferation Treaty were opposed by governments habitually praised by some critics of United States global involvement.

America's Commitment to International Affairs Cannot Be Undone

"This country's commitment to international affairs on a global scale has been decided by history. It cannot be undone, and the only remaining relevant question is what its form and goals will be.

The Debate on Globalism

"The debate on globalism did, however, perform one useful function. Though much of the criticism did not provide a meaningful policy program, the debate prompted greater recognition of the need to redefine America's world role in the light of new historical circumstances. Thrust into the world by its own growth and by the cataclysms of two world wars, America first actively promoted and then guaranteed the West's economic recovery and military security. This posture – of necessity heavily marked by military preoccupations – has increasingly shifted toward a greater involvement with the less political and more basic problems that mankind will face in the remaining third of the century.

The First Globalist President of the U.S.

"John Kennedy caught the essence of America's novel position in the world when he saw himself as 'the first American President for whom the whole world was, in a sense, domestic politics.' Indeed, Kennedy was the first 'globalist' president of the United States. Roosevelt, for all his internationalism, essentially believed in an 1815-like global arrangement in which the 'Big Four' would have specific spheres of influence. Truman primarily responded to a specific communist challenge, and his policies indicates a clear regional priority. Eisenhower continued on the same course, occasionally applying European precedents to other regions. These shifts were symptomatic of the changing United States role. With Kennedy came a sense that every continent and every people had the right to expect leadership and inspiration from America, and that America owed almost equal involvement to every continent and every people. Kennedy's evocative style, which in some ways appealed more to emotion than to intellect, stressed the universal humanism of the American mission, while his romantic fascination with the conquest of space reflected his conviction that America's scientific leadership was necessary to its effective world role.

The U.S. Needs to Give Direction and Expression to the Emerging Global Economy

"Global involvement is, however, qualitatively different from what has to date been known as foreign policy. It is inimical to clear-cut formulas and traditional preferences. But this intellectual complexity does not negate the fact that for better or for worse the United States is saddled with major responsibility for shaping the framework for change. This point of view is subject to easy misrepresentation and is highly unpopular in some circles. World conditions do not call for a Pax Americana, nor is this the age of American omnipotence. Nevertheless, it is a fact that unless the United States, the first global society, uses its preponderant influence to give positive direction and expression to the accelerating pace of change, that change not only might become chaos – when linked to old conflicts and antipathies – but could eventually threaten the effort to improve the nature and the character of American domestic life.

A Community of Developed Nations Is Less Ambitious Than a World Government

"To sum up: Though the objective of shaping a community of the developed nations is less ambitious than the goal of world government, it is more attainable. It is more ambitious than the concept of an Atlantic community but historically more relevant to the new spatial revolution.

Eventual Reconciliation Between Communist and Non-Communist Nations

"Though cognizant of present divisions between communist and non-communist nations, it attempts to create a new framework for international affairs not by exploiting these divisions but rather by striving to preserve and create openings for eventual reconciliation. Finally, it recognizes that the world's developed nations have a certain affinity, and that only nurturing a greater sense of communality among them can an effective response to the increasing threat of global fragmentation – which itself intensifies the growing world-wide impatience with human inequality – be mounted." (New York: Penguin Books, 1970, pp. 293-308.)

Prominent Men of the World Embrace Trilateralism

From Dr. Brzezinski's outline of trilateralism we find that a number of prominent and influential men have abandoned the concept of an Atlantic Union in favor of a trilateral union. Dr. Brzezinski talks of a future "community of nations," a "gradual evolution of a new international system" and a "new fabric of international relations." He acknowledges that the emerging European Community will greatly accelerate the growth of a new world order.

Piecemeal Construction of a Global Community

Dr. Brzezinski does not feel that the construction of a global community or community of nations is "utopianism," but rather that it is the "coming decade's major task." He notes that there will need to be "deliberate efforts to accelerate the process of international cooperation among the advanced nations." He states that movement toward this future global community will probably "require two broad and over-lapping phases." The first phase is the convergence of the governments of the "United States, Western Europe and Japan, as well as those of other more advanced countries." The second phase is the convergence of the advanced countries with the "more advanced communist countries."

A Future World State

The end result of all the "forging of community links" among the advanced countries and communist countries will be a world state administered by the elites of New York, London, Paris, Rome, Tokyo and Moscow.

Dr. Brzezinski observes that the eventual construction of a global community would require "some institutional expression." He proposes the establishment of a "council for global cooperation," which was officially launched in 1973 as the Trilateral Commission, with headquarters in New York, Paris and Tokyo.

The Trilateral Commission Is to Develop Common Political and Economic Policies

Dr. Brzezinski stated that the Trilateral Commission was to be "something more than OECD in that it would operate on a higher level and would also be concerned with political strategy." It "would be more effective in developing common programs than is the United Nations."

A Projected World Information Grid

Dr. Brzezinski noted that there is a need to "broaden the scope of educational-scientific and economic-technological cooperation among the most advanced industrial nations." He talks of a "projected world information grid," of an "international educational system" and "common educational programs]" and "uniform academic standards." He talks of "permanent [computer] information linkage[s]" with "the universities of New York, Moscow, Tokyo, Mexico City and Milan."

Shaping a New World Monetary System Will Require American Sacrifices

Dr. Brzezinski acknowledges that "greater American sacrifices" will be required inasmuch as "more intensive efforts to shape a new world monetary structure will have to be undertaken, with some consequent risk to the present relatively favorable American position." He calls for the "abandonment of restrictions, imposed by Congress in 1949 and 1954, on the international activities of American corporations and on their foreign subsidiaries and plants." He notes that "the appearance of a truly international structure of production and financing would have to go hand in hand with the 'theory of international production.'"

Collaboration Between East and West

Dr. Brzezinski forecasts that "it is only a matter of time before individual communist states come knocking at the doors of the EEC or OECD." He suggests that a "deliberate definition of certain common objectives in economic development, technological assistance, and East-West security arrangements could help stimulate a sense of common purpose and the growth of rudimentary institutional framework" between the advanced countries and the communist countries.

A Call for an East-West Political Consultative Body

Dr. Brzezinski calls for greater "formal links in the economic sphere between OECD and the Council for Mutual Economic Assistance (CEMA) and through the United States-Soviet arms-control arrangements." He also calls for the "creation of an East-West political consultative body."

The USSR Will Eventually Merge with the Developing Global Community

Dr. Brzezinski states that "efforts to create a larger cooperative community need not be halted by initial Soviet reluctance" and that "the Soviet Union could abstain only at great cost to its development and world position."

Accelerating the Development of World Bodies

Dr. Brzezinski notes that "the emergence of a more cooperative structure among the more developed nations (i.e., economic summits) is likely to increase that possibility of a long-range strategy for international development." The development of a "more cooperative structure among the more developed nations would therefore assist and perhaps even accelerate the further development of present world bodies – such as the World Bank."

Dr. Brzezinski states that, "a broader, more ambitious and more relevant approach is called for" in the construction of a global community. He notes that "much of the initiative and impetus for an undertaking on so grand a scale will have to come from the United States."

A Global Community of the Advanced Countries Is More Attainable Than a World Government

Dr. Brzezinski concludes by saying, "Though the objective of shaping a community of the developed nations is less ambitious than the goal of a world government, it's more attainable."

The Groundwork for Trilateralism Is Laid by Tripartite Studies

Through the publication of *Between Two Ages – America's Role in the Technetronic Era*, the world was introduced to the new concept of trilateralism. It was now time to see if leading scholars and academics from the trilateral areas could really work together effectively. Dr. Brzezinski convinced Huntington Harris, a trustee of the Brookings Institution in Washington, D.C., to finance a series of tripartite studies. The first tripartite study was entitled "Reshaping the International Economic Order" and was authored by twelve economists from North America, the European Economic Community and Japan. C. Fred Bergsten, Richard N. Cooper, Edward R. Fried, Fritz Machlup and Ray A. Matthews were the North American rapporteurs; Sir Alex Cancross, Jean-Claude Casanova, Don Guido Colonna di Paliano were the European rapporteurs; and Motoo Kaja, Saburo Okita and Kiichi Saeki were the Japanese rapporteurs. They met at Brookings from December 18-21, 1971. Their final report, published in January of 1972, was jointly sponsored by the European Community Institute for University Studies in Brussels, the Japan Economic Research Center in Tokyo, and the Brookings Institution in Washington, D.C.

Reshaping the International Economic Order

The 1972 report began with the following suggestions:

"Although the immediate international economic problems have now been resolved, or seem on their way to early resolution, the underlying and basic issues remain. These include the necessary revision of the monetary and trading systems, the roles of capital and investment flows, the state of development assistance, and the monetary aspects of mutual defense arrangements.

The U.S., the EC and Japan Must Accept Joint Responsibility for Direction of the International Economic System

"Taken together, these issues present broad choices as to how the international economic system should be reordered: the leading industrial powers – the United States, the European Community (EC), and Japan – must either accept joint responsibility for the direction of the international economic system or risk a drift toward a world of restrictionism.

The Need for Increased Interdependence and Cooperation

"The choice should be in favor of increased interdependence and cooperation. The forthcoming negotiations should deal comprehensively with the main elements of the international economy. To this end, an effort should be made to register large and early progress in the five fields described below.

Reform of the Monetary System

"1. Reform of the monetary system should focus on three principal points:

– Small and more frequent changes in par values should be a central part of the process of adjusting to changing competitive conditions.

– The United States should be ready in the future to cover its basic deficits with reserve assets, once the excess dollars held abroad have been funded, presumably under arrangements to be managed by the International Monetary Fund (IMF).

– Additions to international reserves should be created by deliberate design of the members of the IMF; an international unit should replace the dollar as the world's main reserve.

A Renewed Attack on Barriers to International Trade

"2. A renewed attack should be made by the advanced industrial countries on remaining barriers to international trade.

- Tariffs and quotas on manufactured goods and raw materials should be eliminated in stages, over a ten-year period.

- A linked negotiation on agricultural protection should aim at removing quotas on farm products and placing internationally agreed limits on domestic programs that induce production at high costs.

- Voluntary export restraints and export subsidies on manufactured goods should also be phased out and agreement reached on international rules governing other nontariff restrictions.

- Any relief required for particular industries should be limited in time, diminishing in incidence, and subject to international surveillance.

The Need for Greater Cooperation Concerning Capital Flows and Investment

"3. Greater international cooperation concerning capital flows and investment is needed.

- Harmonization of the monetary policies of the major countries should be the long-term answer to large speculative flows. In the interim, swaps and controls over financial institutions must be used to deal with such disequilibrating capital movements as may occur in spite of wider margins and more flexible parities.

- The removal of balance-of-payments restrictions on foreign investment should go hand in hand with improvements in the international adjustment process.

- The international community should develop rules against tax or subsidy incentives intended to induce inward investment flows, as well as rules to assure that direct investments do not diminish competition or create private barriers to trade.

Development Assistance and Monetary Reform

"4. Development assistance should be linked with international monetary reform.

- New allocations of Special Drawing Rights (SDRs) should be assigned in part for international development lending.

- The funding with the IMF of outstanding dollar and sterling balances could provide an additional means – by using net interest earnings on these balances or by gradual transfer of funded dollars and sterling to international institutions – for increased multilateral development aid.

The Monetary Aspect of Mutual Defense Arrangements

"5. The monetary aspect of mutual defense arrangements should be better understood.

– The balance-of-payments effects of expenditures by the United States and other military forces abroad could suitably be offset by added purchases of military equipment, if and when needed equipment is available at lower costs.

– To the extent that balance-of-payments consequences cannot be thus offset, the international adjustment process must do the work; in a system of more flexible exchange rates, the long standing dispute about the balance-of-payments burden of military alliances should be set aside once and for all.

A Secure World Order at Stake

"What is at stake in all of this is not merely increased economic efficiency. What is involved is the wider question of how the European Community, Japan, and the United States should order their relationship. If economic differences drive them apart, prospects for a secure world order will be notably prejudiced. If they can come together, these prospects will be enhanced. This is business of the greatest importance, to which the countries represented should address themselves without delay." (Washington, D. C., The Brookings Institution, 1972, pp. 1-3.)

Reassessing North-South Economic Relations

The next tripartite meeting was held in Brussels on November 9-15, 1972. Under the chairmanship of Max Kohnstamm, thirteen leading academicians prepared a report entitled "Reassessing North-South Economic Relations." The report dealt with the "possibilities for actions by the industrial countries in the fields of trade, private capital flows, and development assistance." (Washington, D. C., The Brookings Institution, p. 31.) In their concluding remarks the authors stated:

"If, further, the hopeful signs of a lessening of East-West tensions are borne out, then we can begin – with the Soviet Union – to direct resources on a very large scale from military uses to the pressing needs of the poorer countries as well as to our problems at home.

"The truth is that we have the wealth, the productive capacity, the skills and the knowledge, not to make over the world but assuredly to provide in a decade the basis for genuine hope for the future. Our potential is immensely greater than the difficulties that seem so large when we look at the matters separately and narrowly.

"To set its relations with the South on a new and hopeful cause, the North needs only to widen its vision." (*Ibid.*, pp. 31-32.)

Acceptance of Tripartite Studies

The tripartite or trilateral meetings and publications were well received in high circles. This is, of course, what Dr. Brzezinski and others had hoped would occur.

Historical Beginnings of the Trilateral Commission

In March of 1972 David Rockefeller, Chairman of the Chase Manhattan Bank, gave three significant speeches in Europe that were to alter somewhat the role of international affairs in the years to come. Mr. Rockefeller proposed the creation of an International Commission for Peace and Prosperity. This idea was, in essence, Brzezinski's earlier trilateral plan for a "high-level consultative council for global cooperation."

Speaking at Chase Manhattan International Financial Forums in London, Brussels and Paris, Mr. Rockefeller stated the following:

Growing Interdependence of Domestic and International Issues

"Not long ago, I was in Peoria, Illinois, visiting the headquarters of the Caterpillar Tractor Company. On the grounds of their headquarters building, I noticed the flags of ten countries on five continents flying alongside the American flag – representing nations in which the firm has subsidiaries or affiliates. Seeing this international display in the heartland of America – sometimes regarded as a bastion of isolationism – I couldn't help thinking that it is truly symbolic of the increasingly close interrelationship of domestic and international issues.

Desire to Rejuvenate Atlantic Alliance

"This growing interrelationship reinforces my belief my belief that in the 1970's we may be able to rejuvenate the Atlantic Alliance around a common concern with our common domestic problems. I think we can hope to acknowledge the mutuality of our problems and to make out of our common foreign policy objectives.

Need to Mobilize New Constituencies

"To do so, we are going to have to mobilize new constituencies to speak for those groups in society that have the largest stake in expanding trade and investment – namely the consumers, the young people, the professional groups. A whole generation on both sides of the Atlantic and Pacific has grown up thinking internationally as no generation ever did before them. The future of the alliance rests on their giving voice to what they have learned.

New International Institution Needed

"In looking ahead, I believe that a major challenge will be to reconcile domestic and international objectives in a manner which will lead to a new period of peace and prosperity. In my judgment, it is possible to affect such a reconciliation, assuming there is continued cooperation among the leading nations. But I believe that a new mechanism would be helpful in enabling us to deal more effectively with the changes which lie ahead. We need a system which can mobilize the best available knowledge and focus it on the practical problems of our times.

Private Organization of the Best Brains in the World

"I would propose the creation of an International Commission for Peace and Prosperity. What I have in mind is a private organization whose primary objective, as I see it, would be to bring the best brains in the world to bear on the problems of the future. This organization would examine the interrelationships between domestic and foreign preoccupations, study new approaches to the transfer of 'social technologies,' and hopefully come up with fresh insights on how we deal with common problems.

Governing Board

"There might be a Governing Board of, say, 30-to-40 leading private citizens, drawn from the Atlantic Alliance nations and Japan. Sub-commissions could be set up to cover such vital fields as the reduction in world tensions, international trade and investment, environmental problems, control of crime and drugs, population control, and assistance to the developing nations. Government officials could certainly be invited to sit in as observers at the deliberations, as could representatives from the Communist countries.

Rebuilding a Framework of Domestic and Foreign Policies

"Because I am strongly opposed to commissions that outlive their usefulness, I would put an arbitrary deadline of two years on this effort. I hope that such a span would be sufficient to collect and synthesize the knowledge that would enable a new generation to rebuild the conceptual framework of foreign and domestic policies.

Economic Integration Taken for Granted

"Members of this new generation will move far more easily than their predecessors across national and linguistic barriers. They will take a degree of economic integration for granted and will – if they are given a chance – resist those who want to retreat again into isolation. If our generation will hand on to them many vexing problems and questions about the goals of society, we will also hand on greater resources than mankind has ever known.

Creating a Community of Interest

"I am confident that in the 1970's, as new men and women come to power in government and industry, in the universities and in the trade unions, we will find it easier than it presently appears to create a community of interest built around the many domestic problems we share, for there will be many more in all of our countries who know first-hand how much we have in common." (Manuscript copy. New York: The Trilateral Commission, pp. 5-6.)

Reaction to David Rockefeller's Proposal

George S. Franklin, former Executive Director of the Council on Foreign Relations from 1953-1971 and formerly the Coordinator for the Trilateral Commission, speaking of the reception of David Rockefeller's speeches in Europe, remarked:

"...He didn't receive an enthusiastic response in these meetings and he dropped the idea. He thought, 'If the Chase Bank Forums don't respond favorably to my suggestion then it's probably a lousy idea.'

"He then went to a Bilderberg meeting and Mike Blumenthal (Secretary of Treasury) was there...and he said, "You know, I'm very disturbed. Cooperation between these three areas – Japan, the United States and Western Europe – is really falling apart, and I foresee all sorts of disaster for the world if this continues. Isn't there anything to be done about it?' David then thought, 'I'll present the idea once more,' which he did and he aroused great enthusiasm.

"The next eight speakers said that this was a marvelous idea; by all means, somebody get it launched." ("Interview with George S. Franklin," September 12, 1977, *Freemen Digest*, January 15, 1978, p. 15.)

As a result of the enthusiastic response at the Spring 1972 Bilderberg Meeting, George S. Franklin stated: "...David asked me if I would go back to Europe and talk to some people more at leisure and see if they really thought this was a good idea. They truly did.

"David and I went to Japan in June of 1972 and he talked to a lot of people there. They thought it was a good idea, so we had a meeting of 13-15 people, I forget exactly how many, at his place in Tarrytown (New York). It was decided to go ahead and try to organize and form it....

"David said, 'Now, who should be the chairman of the Commission?' And it was decided to have three chairmen. Bob Bowie originally suggested Gerard Smith as the American Chairman, and I can't remember who suggested Watanabe as the Japanese Chairman or Max Kohnstamm as the European Chairman. In each case

the choice of the chairman was left to the particular region rather than trying to make a decision on it." (*Ibid.*)

Establishment of the Trilateral Commission

The organizing meeting of the Trilateral Commission was held July 23-24, 1972, at Pocantico Hills in New York. Those present at this important meeting included Messrs.: C. Fred Bergsten, Senior Fellow, The Brookings Institution; Robert Bowie, Clarence Billon Professor of International Affairs, Harvard University; Zbigniew Brzezinski, presently Special Assistant to the President for National Security Affairs; McGeorge Bundy, President, Ford Foundation; Karl Corsteins, Christian Democratic Leader in the Bundestag, Germany; Guido Colonna di Paliano, President, La Rinascente and former member of the Commission of the European Community; Francois Duchene, Director, Centre for Contemporary European Studies, University of Sussex; Rene Foch, member of Executive Committee, Parti des Republicains Independents; George Franklin, Coordinator, The Trilateral Commission and former Executive Director, Council on Foreign Relations; Max Kohnstamm, President, European University Institute, Florence, Italy; Bayless Manning, Former President, Council on Foreign Relations; Kiichi Miyazawa, Member of the DIET and former Minister of Foreign Affairs; Kinhide Mushakoji, presently Vice Rector for Programs, United Nations University; Saburo Okita, President, Overseas Economic Cooperative Fund; Henry Owen, Director, Foreign Policy Studies, the Brookings Institution; David Rockefeller, Chairman, Chase Manhattan Bank; and Tadashi Yamamoto, President, Japan Center for International Exchange.

David Rockefeller initially served as the Organizing Chairman, while Max Kohnstamm served as the European Organizer.

In the Fall of 1972 the respective areas designated Gerard Smith as United States Chairman, Takeshi Watanabe as Japanese Chairman, and Max Kohnstamm as European Chairman. Zbigniew Brzezinski was selected to serve as the Commissions Director from July of 1973.

Source of Funding

In the meantime David Rockefeller and the Kettering Foundation had provided transitional funding. In January of 1973 Gerard Smith, Max Kohnstamm, Zbigniew Brzezinski and George Franklin held consultations with Takeshi Watanbe and the Japanese planning group members in Tokyo. It was during this time period that approval of the highest political and financial circles was obtained. In February of 1973 a formal proposal was submitted to the Ford Foundation to support the majority of the intellectual and research projects of the Commission. The funds were also to provide for administrative and promotional activities. In February additional support also was obtained from several other foundations. On March 29-31, 1973, a policy meeting was held in Europe. Gerard Smith, Max Kohnstamm,

Takeshi Watanabe, Zbigniew Brzezinski and several other members met to discuss initial task-force reports that were to appear later.

The "high-level consultative council for global cooperation" outlined in 1970 by Zbigniew Brzezinski, and the "International Commission for Peace and Prosperity" outlined in Europe in 1972 by David Rockefeller, were now formally established in 1973 as the Trilateral Commission.

The Commission Explains Why It Was Formed

An official Commission document provides the following information concerning its formation, aims and organization:

"The U.S., Western Europe and Japan face a common condition. They are the major industrial areas of the world, and they share common concerns with the problems of environment and post-industrial society, as well as common security concerns. These advanced areas are also the only regions with the economic and technological resources required to undertake an effective response to many of the larger problems besetting mankind. For all these reasons they share a global responsibility which makes the relationship among them of unique importance.

Serious Economic Problems Threaten Japan, Europe and the U.S.

"That relationship is threatened by serious problems, mainly in the economic field. Domestic concerns – in Japan, Europe, and the U.S. – make it difficult to resolve these problems in ways which will not drive these regions apart. It would be all too easy for leaders in each of these regions to seek domestic political advantage at the expense of long-term cooperation. Whether this can be averted hinges on public perception of what is at stake: the issue is not whether one of these regions can gain narrow economic advantage over the other, but whether the industrial nations can work together effectively in addressing the wide range of common concerns described above.

Joint Programs and Institutions Needed to Meet Common Needs

"This cooperation does not involve setting up a super-government to run the advanced world; it means the developed regions coming closer together in joint programs and institutions to meet common needs.

Advanced Communist States Could Participate in the Future

"It does not envisage a new anti-Communist alliance; indeed, at some point in the future the more advanced Communist states might choose to become partners.

Need for Transferring Large Resources from Northern to Southern Hemisphere

"It does not foreshadow a rich man's club. Working more closely together the industrial areas may not only sustain their own security and prosperity but also provide more effective assistance to poor nations. Indeed, one of their principal purposes might be to devise some systematic way of jointly transferring larger resources from the Northern to the Southern hemisphere.

Obstacle to Moving Toward Closer Concert among Developed Nations

"The obstacles to moving toward closer concert among the developed nations are evident: internal problems preoccupy all these areas, and international problems are viewed by these regions from different viewpoints. Yet the effort to find separate answers to these problems will not only fail, it may set in motion a backlash of recrimination and retaliation which could plunge us again into tensions and disputes reminiscent of the 1920's and 1930's. Thus, unless the developed nations can be brought closer together, the troubled peace of the last 25 years may some day be seen as a golden interlude between two ages of great troubles.

Creating a Community of Nations

"But another route is also open: toward increasing cooperation among the three great industrial areas. Because of their technological and economic interdependence, these areas have sufficient common interests to make up a community in fact, if not in form. Working together, they could not only enhance their own welfare and security but also seek progress in the Third World and improve relations with the Communist countries on a more enduring basis.

A Choice That Will Shape the Future of the World

"The choice between these two directions – between drifting apart and closer cooperation among the three advanced regions – will shape the world of the future. A private group can play a role in making that choice. To this end, David Rockefeller proposed the formation of a Trilateral Commission of leading private citizens from Japan, Europe and North America 'whose primary objective [was] to bring the best brains in the world to bear on the problems of the future.'

"The Commission will have three objectives:

Working Together on Common Matters

"(a) To involve a significant group of leaders from the three areas in working together on matters of common concern, thus lessening the communications breakdowns that have occurred in the past and helping to develop a shared understanding of the problems confronting us all.

Proposing Policies

"(b) To propose policies which Japan, the nations of the European Community and North America could follow in their economic relations, their political and defense relations, their relations with developing countries, and their relations with Communist countries. In the cases where it is not possible to reach agreement on what ought to be done, it may be possible to agree on certain things which ought not to be done. Though dealing primarily with problems of foreign policy, the Commission may also suggest approaches to common domestic problems facing the three industrial areas – so that these three areas can learn from each other's experience and assure that their domestic policies do not raise obstacles to effective cooperation.

Developing Support in Government and Private Sectors

"(c) To foster understanding and support of Commission recommendations both in governmental and private sectors in the three regions." (Official Document, New York: Trilateral Commission, March 15, 1973, pp. 1-4.)

Internal Organization of the Commission

The basic governance of the Trilateral Commission is through three chairmen from each of the three regions. According to the Commission:

Chairmen

"The work of the Organizing Chairman, David Rockefeller [was] taken over by three regional Chairmen. The regional Chairmen – one American, one European and one Japanese – will be in charge of the Commission's work. The Chairman, in view of the difficulty of the Commission's work, will devote a substantial percentage of their time to the venture....

Director

"Dr. Zbigniew Brzezinski, Director of the Research Institute on Communist Affairs, Columbia University, and formerly a member of the Policy Planning Council of the State Department [was the first] Director of the Commission with responsibility to the three Chairmen jointly. Starting July 1 [1977] he [directed] the Commission's work on a day-to-day basis, particularly the program of policy studies.

Executive Committee

"The principal policy organ of the Commission [is the] Executive Committee. It [is] responsible for the policy recommendations of the Commission. The [initial] Executive Committee [consisted] of nine members from Japan, nine from the

United States, two from Canada, and 14 from the European Community, a total of 34.

"Members of the Executive Committee will be appointed with deliberation....

"Each regional segment of the Executive Committee will be representative of different points of view and different professions – businessmen, labor leaders, academics, representatives of the media, etc....

Trilateral Task Force

"When the Executive Committee approves a subject for policy recommendations, a task force of some 15 individuals will be selected from the three regions to prepare policy recommendations for consideration. These task forces will be composed of leading experts in the field, including businessmen, journalists, academicians and individuals with experience in public service. If possible, they will include also one or more members of the Commission. There will be a principal rapporteur with primary responsibility for drafting the task force report and associate rapporteurs from a different region than that of the rapporteur.

Influential Members of the Commission

"The Commission will be made up of about 180 eminent private citizens drawn about equally from Japan, North America and Western Europe. The Commission members from each area will be chosen by the respective Chairmen, each of whom will consult with a broad group of individuals in making his selections. The need for diversity, professionally and geographically, will be met as well as the need for men and women of sufficient standing to influence opinion leaders, both public and private, in favor of the Commission's recommendations.

Agenda of Meetings

"It is contemplated that the full Commission may meet as a body only once during the three-year life of the project. However, as indicated in the attached memorandum on Task Forces, it is envisaged that Commissioners from a given region will meet in their own region to consider task force recommendations. Commission members will also keep in touch with the work of task forces by visits from members of the task forces, staff, etc. Only if Commissioners feel they have had a significant part of the development of recommendations will they be interested in promoting the recommendations subsequently in their countries and areas.

Informal Steering Group

"There will be an informal steering group to advise the three Chairmen of the Commission and the Director. It will consist perhaps of two leading personalities

from each of the three regions and the three Chairmen. The [initial] U.S. members will be the Chairman, Mr. Smith, as well as Mr. Rockefeller and Professor Reischauer.

Informal Advisory Council

"Heads of a number of the major internationally oriented institutes in the three regions will assist the three Chairmen and the Director of the Trilateral Commission in the formulation of the Commission's program. Some of the proposed reports might be prepared in collaboration with one or more of these institutes and at the very least close contact will enable the Commission to benefit from many ideas and to avoid undesirable duplication.

Purpose of the Program of Policy Studies

"The Trilateral Commission's Program of Policy Studies will have a three-fold purpose:

- (a) To provide the Commission with relevant and adequately researched policy recommendations on matters of common concern;
- (b) To cultivate among concerned Americans, Japanese, and Europeans the habit of working together on a trilateral basis in the formulation of joint policies;
- (c) To develop longer-range trilateral studies on subjects of concern to the three parts of the world.

Four Types of Studies

"To these ends, four types of studies are currently envisaged:

1. Task force reports and recommendations on matters of immediate urgency with regard to which some trilateral research has already been undertaken by other organizations and from which relevant policy recommendations may be extracted without the need for extensive prior research;
2. Longer-term task force undertakings, requiring more original research in depth, pointing also towards the generation of pertinent policy recommendations for adoption by the Commission.
3. Studies in depth undertaken either by three individuals, one from each area, or by a single person with a trilateral advisory group, designed to provide a systematic examination essentially of an academic character of political, economic, or social issues of concern to the three areas, yielding perhaps policy implications, though not designed explicitly to generate policy recommendations.

4. Consideration is also being given to the publication of annual reports on the state of trilateral relations or information bulletins, with the former meant for wider distribution and the latter designed primarily as an instrument of communications among Commission members.

Topics for Trilateral Study

"For planning purposes, six general topics are listed below as possible subjects of study for the task forces. The first three of the six are likely to be given priority, however. With the exception of perhaps one or two very obvious and urgent issues, there will be no final decision on subjects for Commission consideration until the Executive Committee is formed. The topics are:

1. Economic relations, including problems of money, trade and investments.
2. Security, arms control and nuclear proliferation.
3. Relations with developing countries;
4. Political implications of energy problems;
5. International institutions and political consultation;
6. Relations with Communist nations.

Long-Range Analytical Studies

"Other subjects, more suited for long-range analytical studies than for Commission recommendations, and resulting perhaps in publications, include (1) the effect of changes in values on the international system and (2) issues presented by the impact on modern society of science and technology. Such topics might be given to a single author with a trilateral advisory group or it may be desirable to commission three authors to work jointly. The authors would work in close consultation with one another and they, too, might have a small advisory group, so that the product would be joint one.

"Other topics which have been suggested for the Commission's work but which have not been extensively discussed include: a comparative study of the attitudes of the elites of the three areas toward one another; a joint proposal with regard to offshore boundaries and exploration of the seabed; joint rules for the multinational corporation; political implications of new means of social control over man's development and behavioral study of educational reforms in the three areas and their transferability; the respective experience of the three areas in coping with social problems posed by youth and by old age; and analysis of the international consequences of demographic growth.

A Report on the State of Trilateral Relations

"Consideration is being given to the issuance of a report on the state of trilateral relations, reviewing critical progress toward greater cooperation, and the appearance of new issues or frictions. The report would summarize proposals made during the year by the Trilateral Commission. It is hoped that such an annual report would gain recognition and acceptance among the media and the business communities (as, for example, has been the case with the annual reports of the International Institute of Strategic Studies).

Information Bulletin

"The Commission also is considering for limited circulation an information bulletin dealing with trilateral problems and relations and containing information not readily available elsewhere. If it proved useful, such a bulletin might develop into a Trilateral journal.

Summary of Trilateral Commission Goals

"The importance as well as uniqueness of the Trilateral Commission lies in the fact that it will be:

- (a) A Commission working on – and making recommendations on – policy.
- (b) Relating to a wide range of political and economic and military issues;
- (c) Bringing together in its work influential citizens of three vital segments of the world and accustoming them to work together.

"A detailed blueprint cannot be provided at this stage as to just how the Commission's activities will unfold, but it is hoped that the plans outlined above and the caliber of the leadership (and especially that it is full-time leadership) will give the necessary assurance that the Commission will move with imagination, energy, thoughtfulness and responsibility....." (*Ibid.*, pp. 4-12.)

Max Kohnstamm Outlines the Commission's Rationale

The Commission's rationale is well summarized in the following points made by Max Kohnstamm:

"...There is a considerable and indispensable difference between the attitude of the negotiator and the man who looks at a new problem and tries to find solutions for it.

"The essence of the second attitude is that one does not look upon the other as the fellow opposite, but tries together with him to understand the problem and after

having understood to find solutions for it. No good can come of mixing these two attitudes.

Real Research Needed

"I feel more strongly than ever that we need to do some hard clear thinking and ask together some very probing questions. Some of this work will probably demand real research, much of it will demand some of the best minds, basing themselves on knowledge already available, talking with each other in an atmosphere of a common quest for solutions and far removed from an attempt to negotiate.

Constant Checking with Those in Power or Who Have Considerable Influence on Those in Power

"This, which must be done by absolutely first-rate intellectuals, will tend to become irrelevant unless it is done in constant checking with those who are in power or have a considerable influence on those in power. It seems to me that the linkage between the kind of people we must get for our Trilateral Commission and the intellectuals doing the indispensable work of thinking about the elements for a new system is of the greatest importance. A Trilateral Commission without the intellectual will become very soon a second-class negotiating forum. The intellectuals not being forced to test their ideas constantly with the establishment of our world will tend to become abstract and therefore useless. I know that this linkage is difficult and I am well aware of the fact that we may not be able to do it as well as it should be done, but I think that not to try would be a very great pity.

Important New Economic Relationships to Be Established

"We may exaggerate the problems ahead but I feel that the next years are really going to be very important for the relationships between the great free market economies amongst each other and at the same time for the relations between them and the East and the South.

The Commission May Achieve Something of Real Value

"An attempt to bring to bear on the situation the joint effort of our very best minds and a group of really influential citizens in our respective countries may not be successful. But there is at least a good chance that it will achieve something of real value and it seems a pity not to try." (*Ibid.*, pp. 12-13.)

"The Vital Triangle"

In 1973 several articles began to appear pointing out the virtues of trilateralism. Gerard C. Smith, North American Chairman of the Trilateral Commission, in an article entitled "The Vital Triangle," stated:

"Trilateralism is, above all, a matter of attitude. Its essence lies in a common perception by the three great democratic industrialized areas that their prime interests intersect. Until planners and leaders in all three regions share this perception, co-operation will remain haphazard, uninspired, and hobbled by latent suspicions. Ultimately, each side must develop the habit of assessing all major international policies in terms of their effect on the trilateral relationship. Common policy will follow, as a matter of course, from common vision.

The Need for Significant Changes in Existing Attitudes

"Before this vision can be acquired, however, there must be significant changes in existing attitudes. Both North America and Europe must acknowledge the equality of Japan. The following words in Dr. Kissinger's speech to the Pilgrims in London last December could not have gone unnoticed in Japan: 'We are prepared to offer a unifying Europe a "special relationship," for we believe that the unity of the Western world is essential for the well-being of all its parts.' American policy must go a long way before it assuages Japan's fears of being relegated to a position in Washington's priorities that ranks considerably below our close and abiding friendship with Europe. Japan must not be given to think that she is merely being dragged in as an afterthought to some scheme elaborated by the Atlantic powers.

The Need to Develop a Sense of Common Destiny Between Tokyo and the European Capitals

"The Europeans seem to be even less aware of the implications of Japan's upward movement on the power scale. The thought patterns that are crucial to developing a sense of common destiny between Tokyo and the European capitals must be built from the group up. Many thoughtful Europeans realize that Japan cannot be overlooked by a major economic power such as the European Community. The increasing flow of Japanese tourists, no less than exports and investments, to Western Europe should be a signal to the Europeans that Japan is a power to be reckoned with and that such reckoning can best be realized in a clustering of common interests.

Trilateralism Does Not Represent Another Grand Design

"The development of trilateral ties also implies a recognition of what trilateralism is not. Trilateralism does not represent another Grand Design. Its intentions are modestly confined to improving communications and co-operation among the three major power centers that constitute the triangle. It does not seek to dismantle alliances, organizations, or arrangements that are presently in good working order; there is nothing inconsistent between trilateralism and good bilateral relations among all concerned. Nor is it intended to be a 'rich man's club', one of its prime aims should be a more rational allocation of resources to developing parts of the world.

Trilateralism Must Not Be Anti-Communist

"Finally, trilateralism must not be an anti-Communist league. Among its major purposes should be to continue the ongoing improvements in North American, European, and Japanese relations with the USSR and China." (*The Atlantic Community Quarterly*, Fall 1974, Vol. 12, No. 3, pp. 243-244. Originally published in *The World Today*.)

Development of Common Policies for the Trilateral Nations

Gerard C. Smith also noted in "The vital Triangle" that the "process of trilateral community-building should be initiated at once." (*Ibid.*, p. 344.) In reference to the development of common policies for the trilateral areas, he stated:

"...A trilateral approach to the broader problems of relations between Japan-Atlantica and the developing countries is needed. Growth in the developing countries hinges more than anything else on what these countries do to help themselves. But it also requires access to the markets of all the developed countries and this is more likely to come about if the developed country or group of countries will not have to face a disproportionate increase in its share of imports from developing countries. Bilateral aid to developing nations has lost its attraction. Acting together, the industrial countries may be able to devise effective substitutes: increased support of the World Bank and its soft-loan affiliate, greater aid to such regional institutions as the Asian Development Bank and the Inter-American Development Bank, monetary reform – whether through SDRs or otherwise – to convey increased resources to the developing countries, and the use of fees charged for exploitation of such common resources as the extra-territorial oceans for the same purpose. But none of these resources will come about unless Japan, Western Europe, and North America can work together effectively to this end. Concerting policies to ensure that the developing world has a fair chance of not becoming one vast disordered slum, breeding contagious violence, may be the single most important task for the three advanced regions.

Coordinating External and Domestic Policies in the Trilateral Nations

"In addition to coordinating their external policies, the three regions can also turn their collective attention to great common domestic problems. In such trouble areas as urban environment, education, and the clash of generations, the nations of the post-industrial world stand to learn a great deal from one another; they are most likely to make a dent in what seem to be impenetrable problems by pooling talents and resources.

Developing a Sense of Common Identity

"In this way, too, a sense of common identity can be forged, as each region comes to see parts of itself reflected in the domestic life of its two partners. Over time, these notions of common identity will stimulate common action.

Preparatory Work Will Be Required

"Before all of this can happen, a good deal of preparatory work will be required, at both governmental and non-governmental levels. Some useful preparatory work is already being carried out. Trilateral policy planning on economic issues is being conducted under the auspices of the Brookings Institution, the Japan Economic Research Center, and the European Community Institute of University Studies. Additional private trilateral approaches are also envisaged to seek common understanding of security problems by Brookings, the International Institute of Strategic Studies, and the Japan Institute of International Affairs – as well as by the Atlantic Council, the Atlantic Institute, and the Japan Society. New insights are constantly being generated by this process of private dialogue...." (*Ibid.*, pp. 348-349.)

Influencing Trilateral Governments

As noted above, one of the main purposes of the Trilateral Commission is to make policy recommendations to the government in each of the three regions. Mitchell Sharp, former North American Deputy Chairman, elaborated on this:

"There is no doubt...that the Commission's aim is to affect government. But...I don't think that the influence of the group is any greater than the total power of the individual members would be without the Commission." (*MacLean's*, October 17, 1977, p. 44.)

The Triangle Papers

One way which the Trilateral Commission influences government is through the publication of special task force reports called *Triangle Papers*. These reports are prepared for high-level governmental officials and contain policy recommendations which the Commission would like to see implemented. Rapporteurs are carefully selected from the three trilateral areas (United States, Japan and Western Europe). The *Triangle Papers* set forth the unofficial "grand design" of the Trilateral Commission.

Published Papers: Reports of the Task Forces

The first of the *Triangle Papers* appeared in 1973. To date there have been 47 *Triangle Papers* published with several in the writing stage at the present time. These include:

1. *"Towards a Renovated World Monetary System"*, 1973, by Richard N. Cooper, Motoo Kaji and Claudio Segre.
2. *"The Crisis of International Cooperation"*, 1974, by Francois Duchene, Kinhide Mushakoji and Henry Owen.
3. *"A Turning Point in North-South Economic Relations"*, 1974 by Richard N. Gardner, Saburo Okita and B.J. Undink.
4. *"Directions for World Trade in the Nineteen-Seventies"*, 1974, by Guido Colonna di Paliano, Philip H. Trezise and Nobuhiko Ushiba.
5. *"Energy: The Imperative for a Trilateral Approach"*, 1974, by John C. Campbell, Guy de Carmoy and Shinichi Kondo.
6. *"Energy: A Strategy for International Action"*, 1974, by John C. Campbell, Guy de Carmoy and Shinichi Kondo.
7. *"OPEC, the Trilateral World, and the Developing Countries: New Arrangements for Cooperation, 1976-1980"*, 1975, by Richard N. Gardner, Saburo Okita and B.J. Undink.
8. *"The Crisis of Democracy"*, 1975, by Michel Crozier, Samuel P. Huntington and Joji Watanuki.
9. *"A New Regime for the Oceans"*, (1976, by Michael Hardy, Ann L. Hollick, Johan Jorgen Holst, Douglas M. Johnson and Shigeru Oda.
10. *"Seeking a New Accommodation in World Commodity Markets"*, 1976, by Carl E. Beigie, Wolfgang Hager and Sueo Sekiguchi.
11. *"The Reform of International Institutions"*, 1976, by C. Fred Bergsten, Georges Berthoin and Kinhide Mushakoji.
12. *"The Problem of International Consultations"*, 1976, by Egidio Ortona, J. Robert Schaetzel and Nobuhiko Ushiba.
13. *"Collaboration with Communist Countries in Managing Global Problems: An Examination of the Options"*, 1977, by Chihiro Hosoya, Henry Owen and Andrew Shonfield.
14. *"Towards a Renovated International System"*, 1977, by Richard N. Cooper, Karl Kaiser and Masataka Kosaka.
15. *"An Overview of East-West Relations"*, 1978, by Jeremy R. Azrael, Richard Lowenthal and Tohru Nakagawa.

16. *"Expanding Food Production in Developing Countries: Rice Production in South and Southeast Asia"*, 1978, by Umberto Colombo, D. Gale Johnson and Toshio Shishido.
17. *"Energy: Managing the Transition"*, 1978, by John C. Sawhill, Keichi Oshima and Hanns W. Maull.
18. *"Collective Bargaining and Employee Participation in Western Europe, North America and Japan"*, 1979, by Benjamin C. Roberts, Hideaki Okamoto and George C. Lodge.
19. *"Industrial Policy and the International Economy"*, 1979, by John Pinder, Takashi Hosomi and William Diebold.
20. *"Major Payments Imbalances and International Financial Stability"*, 1979, by Masas Fujioka, Alexandre Lamfalussy and Bruce MacLaury.
21. *"Trade in Manufactured Products with Developing Countries: Reinforcing North-South Partnership"*, 1981, by Albert Fishlow, Jean Carriere and Sueo Sekiguchi/
22. *"The Middle East and the Trilateral Countries"*, 1981, by Garret FitzGerald, Arrigo Levi, Hideo Kitahara and Joseph J. Sisco.
23. *"The Trilateral Countries in the International Economy of the 1980s"*, 1981, by Miriam Camps, Ryokichi Hirono and Karsten Lursen.
24. *"East-West Trade at a Crossroads"*, 1982, by Robert V. Roosa, Michiya Matsukawa and Armin Gutowski.
25. *"Sharing International Responsibilities"*, 1983, by Nobuhiko Ushiba, Graham Allison and Thierry De Montbrial.
26. *"Trilateral Security"*, 1983, by Gerard C. Smith, Paolo Vittorelli and Kiichi Saeki.
27. *"Facilitating Development in a Changing Third World"*, 1983, by Takeshi Watanabe, Jacques Lesourne and Robert S. McNamara.
28. *"Democracy Must Work"*, 1984, by David Owen, Zbigniew Brzezinski and Saburu Okita.
29. *Agricultural Policy and Trade: Adjusting Domestic Programs In An International Framework*, 1985, by D. Gale Johnson, Kenzo Hemmi & Pierre Lardinois.

30. *East Asian Security and the Trilateral Countries*, 1985, by Masashi Nishihara.
31. *Prospects For East-West Relations*, 1986, by William G. Hyland, Karl Kaiser & Hiroshi Kimura.
32. *Conditions For Partnership In International Economic Management*, 1986, by C. Fred Bergstein, Etienne Davignon & Isamu Miyazaki.
33. *Restoring Growth In The Debt-Laden Third World*, 1987, by Martin Feldstein, Herve DeCarmoy, Koei Natusawa & Paul R. Krugman.
34. *Science & Technology*, 1987, by Takashi Mukaibo.
35. *East Asia In Transition: Challenges For The Trilateral Countries*, 1988, by Richard Holbrooke, Roderick MacFarquhar & Kazuo Nukazawa.
36. *East-West Relations*, 1989, by Valery Giscard D'Estaing, Yasuhiro Nakasone & Henry A. Kissinger.
37. *International Financial Integration: The Policy Challenges*, 1989, by Shijuro Ogata, Richard N. Cooper & Horst Schulmann.
38. *The Israeli-Palestinian Issue*, 1990, Garret Fitzgerald.
39. *Latin America At A Crossroads: The Challenge to the Trilateral Countries*, 1990, by George W. Landau, Julio Feo & Akio Hosono.
40. *Beyond Interdependence: The Meshing Of The World's Economy And The Earth's Ecology*, 1991, by Jim MacNeill, Pieter Winsemius & Taizo Yakushiji.
41. *Global Cooperation After The Cold War: A Reassessment of Trilateralism*, 1991, by Joseph S. Nye, Jr., Kurt Biedenkopf & Motoo Shiina.
42. *Regionalism In A Converging World*, 1992, by Toyoo Gyohten & Charles E. Morrison.
43. *Keeping The Peace In The Post-Cold War Era: Strengthening Multilateral Peacekeeping*, 1993, by John Roper, Masashi Nishihara, Olara A. Otunnu & Enid C.B. Schoettle.
44. *International Migration Challenges In A New Era*, 1993, by Doris M. Meissner, Robert D. Hormats, Antonio Garrigues Walker & Shijuro Ogata.
45. *An Emerging China In A World Of Interdependence*, 1994, by Yoichi Funabashi, Michel Oksenberg & Heinrich Weiss.

46. *Engaging Russia*, 1995, by Robert D. Blackwill, Rodric Braithwaite & Akihiko Tanaka.

47. *Revitalizing Trilateral Democracies*, 1995, Robert D. Putman, Jean-Claude Casanova & Seizaburo Sato.

48. *Energy Security*, William F. Martin, Ryukichi Imai and Helga Steeg

49. *Rising Income Inequalities and the Globalization of Markets*, Neils Thygesen, Yutaka Kosai and Robert Z. Lawrence

Trilateralists in the Reagan Administration

Many people felt that with the election of Ronald Reagan in 1980 that the tide of trilateralism would be turned back. Just the opposite occurred, however. Several former "trilateralists" occupied leading positions in the Reagan Administration. These included: George Bush, Vice-president; Casper Weinburger, Secretary of Defense; Paul Volcker, Chairman, Federal Reserve Board; Arthur Burns, Ambassador to Germany.

The fact that the Ottawa Summit was convened with U.S. participation demonstrates that trilateralism was progressing steadily, although it was not as obvious to the public as during the Carter Administration.

It appears that trilateralism is firmly entrenched as "unofficial" U.S. foreign policy. The only real visible change in America is the name of the President. Whether President Reagan personally accepted the concept of trilateralism is unknown, however, his appointments and policies, indicated an adherence to trilateral ideology and policies by several of his close advisors. President George Bush and President Bill Clinton have carried the banner of trilateralism forward in their respective administrations. We can safely predict that all future presidents will do the same unless there is a major change in U. S. Foreign Policy. In the days ahead, the power and influence of the Trilateral Commission will continue to grow as it guides the advanced nations of the world into the 21st century.

Brookings Institution Launches Its Integrating National Economies Project to Promote Trilateralism in the United States and Throughout the World

In 1993 the Brookings Institution in Washington, D. C. launched its "Integrating National Economies Project" to assist the Trilateral Commission in its effort to integrate the economies of the world. According to Brookings the INEP is "a major research effort among collaborators both inside and outside the Institution to take on the multifaceted challenges of economic integration. Directed by Brookings economists Henry Arron, Ralph Bryant, Susan Collins and former senior fellow Robert Lawrence, the INE Project has produced the most comprehensive analysis to date of the growth of global integration in many key

areas." (*Framing the Debate*, 1995 Annual Report, Washington, D.C.: Brookings Institution, 1995, p. 5.)

The Brookings Institution feels that the "world economy has entered a new phase requiring new rules and new levels of international cooperation. Cogent analysis of deeper international economic integration and guidelines for government policies, are urgent priorities. Integrating National Economies [Project] meets these needs in a series of 22 books by some of the world's leading economists, political scientists, foreign policy specialists, and government officials." (*Publications Catalog, Brookings*, Fall 1995, Washington, D.C.: Brookings Institution, 1995, p. 12.)

The Integrating National Economies Project has produced 22 remarkably revealing books. These volumes are designed to further the integration of the economies of the world and lay the foundation for the "new Imperial System" under construction. The books are designed to bolster public acceptance of the doctrine of trilateralism and global economic integration. The volumes in the INEP series include:

1. *Trade Policies and Developing Nations*, by Anne O. Krueger.
2. *International Coordination of National Stabilization Policies*, by Ralph C. Bryant.
3. *Russian, Eurasia, and the Global Economy*, by Peter Rutland.
4. *The Politics of Deeper Integration: National Attitudes and Policies in Japan*, by Akihiko Tanaka.
5. *Regionalism, Multilateralism, and Deeper Integration*, by Robert Z. Lawrence.
6. *Distributive Issues: A Constraint on Global Integration*, by Susan M. Collins.
7. *A Vision for the World Economy: Openness, Diversity, and Cohesion*, by Robert Z. Lawrence, Albert Bressand, and Takatoshi Ito.
8. *Reforming Planned Economies in an Integrating World Economy*, by Barry P. Bosworth and Gur Ofer.
9. *Environment and Resource Policies for the World Economy*, Richard N. Cooper.
10. *Labor Markets and Integrating National Economies*, by Ronald G. Ehrenberg.

11. *International Monetary Arrangements for the 21st Century*, by Barry Eichengreen.
12. *Financial Integration, Corporate Governance, and the Performance of Multinational Companies*, by Mitsuhiro Fukao.
13. *Developing Nations and the Politics of Global Integration*, by Stephen Haggard.
14. *Financial Regulation in the Global Economy*, by Richard J. Herring and Robert E. Litan.
15. *International Institutions and the Political Economy of Integration*, by Miles Kahler.
16. *Leadership Abroad Begins at Home: U.S. Foreign Economic Policy After the Cold War*, by Robert L. Paarlberg.
17. *Techno-Nationalism and Techno-Globalism: Conflict and Cooperation*, by Sylvia Ostry and Richard R. Nelson.
18. *Competition Policies for an Integrated World Economy*, by F. M. Scherer.
19. *How China Opened Its Door: The Political Success of the PRC's Foreign Trade and Investment Reforms*, by Susan L. Shirk.
20. *Product Standards for Internationally Integrated Goods Markets*, by Alan O. Sykes.
21. *Taxation in an Integrating World*, by Vito Tanzi.
22. *Regional Integration: The West European Experience*, by William Wallace.

The integration of the economies of the world is accelerating since the transformation of the General Agreement on Tariffs and Trade into the World Trade Organization in 1994. Various organizations such as the Trilateral Commission, Council On Foreign Relations, Atlantic Institute of the United States and the Brookings Institution will continue to prepare treatises on various aspects of the world economy and the areas where its needs to be adjusted and strengthened. The end result of their collective effort, along with dozens of similar organizations in Europe, Japan and elsewhere, will be the construction of a "new Imperial System" under the domination of powerful corporate leaders and international bankers that will rival the Roman Empire.

11. Economic Summitry – Institutionalizing Trilateral Supranational Rule

Part I. Introduction: Economic Summits – the Right Arm of Trilateralism

In an article entitled "Trilateral Governance" Jeremiah Novak, a leading economic analyst and author, has stated: "Far faster than most people realize the domestic and foreign policy of the United States is being influenced by a new supranational 'directory' operating on a governmental and private basis through clearly discernable institutions. Under the aegis of the Trilateral Commission and noted trilateralists in other countries of Western Europe and Japan, this supranational 'directory' – a new superstate – is gradually coming into control of the world economy. It is this directory which sets the pace for economic development and which determines its institutional shape." (Quoted in the *Freemen Digest*, Report No. 8, 1979, entitled "Trilateralism – A Critical Review," p. 130.)

Decision-Making at the International Level

We are in an age of transition with a pervasive political dimension. We are entering a new era of decision-making at the international level, an era of confrontation between nationalism and internationalism, of a new international economic and political system – the era of the trilateral superstate. The role of economic summitry in bringing this international superstate is of primary importance. concerning the summits, Jeremiah Novak has candidly stated:

"...Policy making in the age of Trilateralism has shifted from the Congress and even from the Administration of the United States to the supranational summits, where it is directly influenced by the members of the Trilateral Commission, the supranational preparatory groups and the supranational OECD. President Carter is not the President of the United States, but the general manager of a subsidiary of a supranational institution. Policy comes from the summits to the Administration, and is not the result of the desires of the American people or the people of the summit countries, who are unaware that the summits have been institutionalized into a semi-federal supranational directory." (*Ibid.*, p. 140.)

Understanding the Role of Economic Summits

In order to understand the pervasive role of economic summits, and thus better understand current U.S. Foreign and Economic Policy, it is necessary to first briefly trace the origin of the summits, which is linked directly to the origins of trilateralism. This review will set the stage for a discussion, which will follow, of the role of economic summits in the institutionalizing of trilateralism.

Part II. The Origin of Economic Summitry – Trilateralism

In 1968 Henry Owen, former Director of Foreign Policy Studies Program at the Brookings Institution and Special Representative of the President for Economic Summits and U.S. Ambassador at Large, traced the development of trilateralism as a new system for global governance in an article entitled "Foreign Policy Premises for the Next Administration":

I.

"...We are , at this very moment, passing through an age of transition.

"This transition has many aspects, of which the social and cultural may be the most important. But it also has a political dimension. It reflects the breakup of a world order in which the nature of power and authority has seemed reasonably clear in the developed world. After the political and economic revolutions which convulsed that world in the first half of the nineteenth century, peoples looked increasingly to the nation-state to meet their security and economic needs – and to provide a set of values which would give meaning to their lives. Within the nation-state, they looked increasingly to the central government as the symbol of national identity and the fountainhead of power and legitimate authority. And among national states they perceived adversary and hegemonical relations which provided a congenial outlet for the aggressive impulses which Dr. Lorenz has so well described in animal species, as well as for the collective pride which seems so highly developed among humans.

The New Order of Strong, Centralized Nation-States

"Despite the misgivings of such prophets as Acton and Burckhardt, mankind seemed to have found – in the new order of strong, centralized nation-states – a framework for enduring progress. A golden era appeared to be at hand, as stable and timeless as the monarchs who presided over most of it.

World War I and the Great Depression Marked the Breakdown of the Nation-State System of Governance

"World War I and the Great Depression marked the partial breakdown of this order. They showed that a system based on the notion of all-powerful, competing, national states simply would not work in an era of technological and economic interdependence. But this was not clearly seen at the time; instead, homeopathic remedies were applied: still more power to national states and governments and still greater isolation among them.

Internationalists Promoted Measures to Eliminate the Defects of the Nation-State System of Governance

"All this culminated in the catastrophe of World War II. In its wake, the West's prime concern was to avoid a recurrence of disasters to which the existing order had shown itself so prone: to fend off a postwar depression, and to deter another great war in the developed world. Wise and imaginative measures were directed to these ends. For the supreme crisis of the developed world came at one of those rare times when a fair number of men of unusual force and talent were at hand: Truman, Marshall, Acheson, Keynes, Monnet and Adenauer do not exhaust the list. As a result, the dangers which loomed so large in the developed world after 1945 diminished. Full employment was virtually attained; the threat of war among developed countries receded.

A Mechanism for Global Governance Was Established after World War II

"These successes were achieved in good part by innovations (the Marshall Plan, the International Monetary Fund, NATO and GATT) which recognized the bankruptcy of the old order and looked to new patterns of international action. But public understanding of this change was clouded. One reason was the dominant role of the United States; seen by some as simply a new variant of familiar hegemonical relations among nation-states, our influence both concealed and compensated for the structural deficiencies of the old order.

The Need for New Policy as the Postwar Era Passes

"Twenty years after the war, our unnaturally large role is being constrained in response to the revival of strength in other areas, some waning of the Soviet military threat, our domestic concerns and a growing awareness that American national power cannot solve every problem abroad. As our role diminishes, it becomes evident that other states are unable to meet, through national action, needs hitherto fulfilled by the United States. Thus, the passing of the postwar era underlines not only the need for new policy, but also the nature of the shifts which have been under way during that era in the developed world.

The Modern Industrial Nation-State Is Not Adequate to the Needs of the Day

"It is now clear that the modern industrial nation-state is simply not adequate to the needs of the day – that the most important problems confronting these states will no longer yield to the powers through which their governments have traditionally made their will prevail: the sword and the public purse. In the present environment, none of these governments can assure their purposes, unless their authority and power are increasingly supplemented from other sources: new forms of international action and increasing involvement of the private sector. An example of this is the widening awareness of limits on effective use of the American Government's power abroad and the growing realization that action by

even the most wealthy government, alone, cannot mobilize the external resources needed to aid growth in underdeveloped areas – whether in Asia and Latin America or in our own ghettos.

Traditional Notions of the Power and Authority of National Governments No Longer Command Allegiance

"Thus traditional notions of the power and authority of national governments no longer command – in the developed world at least – the allegiance that they did in times past. Symbols and slogans which derive from these notions are losing their force. Peoples grope for new concepts which will respond more directly to the needs of our day. The failure to find them as yet accounts for some of the unease and questioning which characterizes this transitional period.

The Concept of a Community of Nations

"Almost two years ago, in Warsaw, a philosopher suggested that the concept which would eventually replace past national slogans was that of 'community'. He was evidently using the term more loosely than the dictionary (which speaks of people living in the same place and under the same laws) to mean the coming together in common entities – without regard to national divisions – of people who have common purposes.

The Emergence of International Institutions Which Permit Like-Minded People to Direct Their Efforts to Common Ends Without Regard to National Sovereignty

"Of course, the concept of community is a vague one, but then many new ideas are vague when they first make their appearance. And perhaps the term 'community' is not the best way to describe this idea; its use risks confusion between the experience of the European Community and other quite different and less ambitious forms of joint action. But if we look to substance rather than semantics and for broad direction rather than detail, I suspect we will find the philosopher's judgment sound as to what the current transitional period presages: the increasing emergence of institutions which permit like-minded people to direct their efforts to common ends, without regard to traditional limitations imposed by the sovereign prerogatives of national governments.

International and Regional Institutions Are Moving into Areas That Traditionally Were Formerly the Responsibility of Nation-States

"Increasingly, just such institutions are moving into areas formerly thought the province of these governments. Some widen national boundaries, as in the case of the European Community – the best example; others, like the World Bank and regional development banks, reach out beyond them; still others, like the multinational corporations, ignore these boundaries, to tap private resources. The

strength and nature of these institutions evidently vary widely; the key point, in all cases, is that their scope is no longer defined or limited by old concepts of the power and authority of national governments. (One could make somewhat the same point about the domestic scene, where new institutions which are not tied to traditional notions of political authority arise to meet the problems of our cities.)

II

Recognition of the Current Transitional Period Should Play an Important Role in Determining Future American Foreign Policy

"...Recognition of these tendencies should play an important role in determining the future direction of American foreign policy – for the long term as much as for the next Administration.

The Need for a New Structure of Relations Which Will Facilitate Effective Joint Action Among Nations

"In the developed world, it should lead to a realization of the necessity for a new structure of relations which will facilitate effective joint action, and thus offer an alternative to past notions of national rivalry and hegemony. Building a solid core of power within this framework – that is, among the United States, Western Europe and Japan – is evidently the key to many of the actions discussed below – and to a good deal more besides. For such a structure will also help in shaping a sensible relation between the growing power which postwar change has generated in the developed world and the increasing turmoil which it portends in the developing countries....

III

National Sovereignty Is Not Likely to Figure as Prominently in the Future as in the Past

"...Traditional uses of national power by developed countries are not likely to figure as prominently in the future as in the past;...the U.S. role, in particular, is likely to decline; and...multilateral groups and cooperation offer the most promising – if still highly imperfect – way of filling the resulting vacuum....

IV

The Need to Converge the Economic Policies of the Trilateral Nations

"...The task for the developed world is thus one of concerting the sum total of its economic policies in respect not only of aid but also of trade, monetary policy and private investment – in ways which will create an environment congenial to growth in the developing, as well as the developed, world.

The Concept of a Community of Developed Nations Made Up of the United States, Western Europe and Japan

"Here is a task which can give substance to the concept of a community of developed nations made up of the United States, Western Europe and Japan. For only if these three industrial giants cooperate closely can the task be discharged.

Development of Joint Action and Joint Institutions Among the Trilateral Nations

"And it is hard to see how the West European nations can play their proper role in this concert, except as they come together increasingly in joint action and joint institutions.

A Decline in the Role of the U.S.

"In all of this, the *relative* U.S. role will surely wind down, for reasons that have been discussed. The day when the United States could or should provide the lion's share of aid, or meet most of the world's need for international liquidity, is clearly past.

Development of New Forms of International Action

"The new forms of international action which hopefully will replace it should be addressed to four purposes, whose fulfillment would permit increased resources to be transferred to developing countries without a difficult and dramatic expansion in traditional programs of bilateral foreign aid.

Global Redistribution of Income Through International and Regional Institutions

"(1) Providing increasing amounts of development assistance via multilateral aid institutions and programs: notably, the World Bank and its soft-loan affiliate (the International Development Association); consortia organized by the World Bank to deal with especially large and important needs (India and Pakistan); and regional development banks, *e.g.* in Latin America, Asia and Africa. These multilateral programs assure that the resources of many donor countries besides the United States are tapped and that these resources are combined with outside counsel, which is sometimes received with better grace from an international institution than from individual developed countries. Centering aid increasingly about the World Bank complex and regional banks also helps to put it on a long-term basis, since this is the only basis on which banking institutions can operate. Of course, the pace at which the United States can move toward reliance on multilateral programs will hinge on the willingness of others to contribute. Until and unless that willingness greatly expands, large parts of our aid will have to continue to move through bilateral channels.

Creating a Global Monetary System in Which International Decisions Dominate

"(2) Creating a monetary system in which international decisions, rather than those of the United States, fix the level of world reserves and from which the developing countries can draw substantial benefit. The Special Drawing Rights scheme agreed upon at Rio is a step in the right direction. Activating that system will not only mitigate recurring monetary crises in a period when other countries are no longer prepared unquestioningly to accept U.S. deficits and policies; it will also help to meet the developing nations' needs for additional resources.

Reducing World Trade Barriers by Joint Action of Trilateral Nations

"(3) Reducing world trade barriers and affording temporary preferential access for developing countries to the markets of industrial nations. Here, too, only joint action can be effective; no single industrial country could reduce its barriers without inviting a disproportionate invasion of its domestic market. The resulting transfer of net resources might not be as large as some developing countries expect by the attraction and stimulus of wider export opportunities could exert an effect on their economies which cannot be wholly measured in quantitative terms. It would not substitute for aid, but it could reinforce the effect of aid in bringing about needed structural changes, leading to more market-oriented and hence more efficient economies in the developing world.

Boundaries Between the Public and Private Sectors, as Well as between Nation-States Will Have to Be Breached as Efforts to Encourage the Flow of Private Investment Are Stepped Up

"(4) Stepping up efforts to encourage the flow of private investment (particularly in agro-industry) to developing countries. Boundaries between the public and private sectors, as well as between nation-states, will have to be breached; the requisite resources imply cannot be secured through governmental action alone. The notion that there is something wicked or exploitive in private foreign investment is coming increasingly to be recognized for the fiction that it is. There are opportunities for both developed and developing countries to find novel ways of encouraging it: guarantees, subsidies of interest rates, joint ventures, etc.

The World Bank's International Finance Corporation and the Private Multinational Corporations Are to Play a Large Role

"Two international institutions – the World Bank's International Finance Corporation and the private multinational corporation – have a large role to play. Along with this might go new measures to encourage and assist borrowing by the developing countries in the private capital markets of the developed countries.

New Forms of Public-Private Partnerships

"There is some parallel in all this to the domestic scene in the United States, where the limitations on national governmental action in fighting the problems of urban poverty, the role and relevance of private resources in meeting these problems, and the need for new forms of public-private partnership to this end are becoming increasingly accepted as the ideological myths of the 1930s fade away.

A Two-Phase Approach Toward Global Governance and Cooperation

"Each of these four purposes is of at least as much concern to developing as to the developed nations and cannot be achieved without their cooperation; a concert of developed countries arrogating to themselves the task of deciding what is good for the world economy would be not only politically counterproductive but economically ineffective. Cooperation will have to occur, first, between developed countries and the emerging regional economic groupings of developing countries, and, second, within global organizations that include both developed and developing countries: the World Bank, IMF, GATT and UNCTAD.

The Eventual Objective of Bringing the Soviet Union into a Global System of Governance

"Our eventual objective should be to see the Soviet Union and the East European nations also playing a constructive role in these international economic programs. This will be slow in coming, but over the longer term, perhaps the communists will learn – as we have – that the political advantage they seek through bilateral arrangements is short-lived and ephemeral.

Joint Action by the Trilateral Nations Rests on Creating a Political Base for Global Socialism

"The possibility of joint action by the United States, Western Europe and Japan to meet the needs of developing countries rests on the assumption that a more viable political base will be created in the developed world for continuing and growing transfers of resources to developing countries. This is an assumption whose importance is exceeded only by its optimism.

The Vatican and the World Council of Churches Jointly Create an Exploratory Committee to Further Redistribute Income

"A promising initiative now being taken in the developed world is the Exploratory Committee on Society, Development and Peace, jointly created by the World Council of Churches and the Vatican. This committee, which recently convened an international meeting in Beirut, will try not only to lay out proposals for action by the industrial countries to aid development, but also to create national and local constituencies in these countries to support such action. Economic

development aid so far has lacked an active grass-roots constituency. Who could do a better job of creating it than the churches?...

Alternative to National Action

"This article has tried to sketch some of the ways in which alternatives to national action can be applied at danger points where power in the developed world and turmoil in the Third World converge and interact. Much is already being done to give content to joint action in these fields, by throwing American support behind regional organizations, by channeling out aid through multilateral programs and by otherwise strengthening institutions which permit common action to be taken effectively. When the record of the last few years is reviewed in all of these respects, it will be found to be an impressive one.

New Types of International Action in the Next Phase of American Foreign Policy

"As the war in Viet Nam abates, we will need to go much further. Our instinctive aversion to innovation, except in times of evident and desperate crisis, may be overcome if we contemplate not only the specific actions that are needed but also the underlying reasons for that need: the 'nobler and deeper' causes of the present unease of which Teilhard de Chardin spoke and which he rightly attributed to the uncertainties generated by man's passage to new and larger forms of communal action. If we can thus understand better the era of transition through which we are passing, it may be easier to look beyond it to new types of international action in the next phase of American foreign policy." (*Foreign Affairs*, Vol. 46, No. 4, July 1968, pp. 699-702, 706-707, 708-711.)

A Transition from a System of Nation-State Governance to Global Governance

According to Henry Owen the world is currently passing through is a transition from a system of nation-state governance into a system of global governance where economic and political decisions are made by individuals operating at the international level. It is a transition from the Bretton-Woods System into a new international economic system fashioned by the concept of trilateralism.

The Nation-State and National Sovereignty Are Outdated

Henry Owen states that "it is now clear that the modern industrial nation-state is simply not adequate to the needs of the day." (*Ibid.*, p. 701.) Owens feels it is time to move from the individual nation-state into a community of developed nations. He states that the word "community" means "the coming together in common entities – without regard to national divisions – of people who have common purposes." (*Ibid.*)

The Evolution of International Institutions with Governmental Authority

Owen states that the current transitional period into global governance "presages...the increasing emergence of institutions which permit like-minded people to direct their efforts to common ends, without regard to traditional limitations imposed by the sovereign prerogatives of national governments." (*Ibid.*, p. 702.)

The Future Direction of American Foreign Policy

Owen notes that recognition of world order "tendencies should play an important role in determining the future direction of American foreign policy...." (*Ibid.*)

Development of Joint Programs and Policies by the Trilateral Nations

He claims that world order politics "should lead to a realization of the necessity for a new structure of relations which will facilitate effective joint action, and thus offer an alternative to past notions of national rivalry and hegemony. Building a solid core of power within this framework – that is, among the United States, Western Europe and Japan – is evidently the key...." (*Ibid.*)

The Decline of the U.S. as It Shares Power with Western Europe and Japan

Owen notes that the predominant role which the U.S. held in the previous world order or concert of powers will now be somewhat diminished as it shares "power" with Western Europe and Japan in the new emerging community of developed nations. He feels that "the U.S. role, in particular, is likely to decline...." (*Ibid.*, p. 706.)

Convergence of Economic Policies in the Trilateral Nations

Owen feels that this new trilateral concert of powers' main task will be "one of concerting the sum total of its economic policies – in respect not only of aid but also of trade, monetary policy and private investment." (*Ibid.*, p. 708.)

Economic and Political Decisions Should Be Made at the International Level

In other words he feels that economic and political decisions should be made at the international level by intergovernmental institutions or international institutions where leaders from the U.S., Western Europe and Japan formulate policy. Today such decisions are being made and formulated through the process of economic summitry.

Four Issues Facing the Trilateral Concert of Powers

Owens states that the new concert of powers should address itself to four purposes: (1) a call for redistribution of the earth's wealth; (2) creation of a single international currency for the world controlled by the International Monetary Fund; the IMF is currently evolving into a world central bank similar to the Federal Reserve System, except on a global level; (3) removing all nationalistic economic barriers to so-called "free trade"; (4) "stepping up efforts to encourage the flow of private investment...to developing countries." (*Ibid.*, pp. 709-710.)

Two Phases for Developing International Cooperation

Owen notes that "cooperation will have to occur, first, between developed countries and the emerging regional economic groupings of developing countries, and second, within global organizations...." (*Ibid.*, p. 711.)

The Eventual Merger of the Trilateral Concert of Powers with the Soviet Union

Owen feels that the eventual objective of the Trilateral powers (the U.S., Western Europe and Japan) is to merge with the Soviet Union and the East European nations that are also contributing to international economic programs.

The Creation of a Political Base for Global Socialism

Owen also states that the "possibility of joint action by the United States, Western Europe and Japan to meet the needs of developing countries rests on the assumption that a more viable political base will be created in the developed world for continuing and growing transfers of resources to developing countries." (*Ibid.*)

The Trilateral Political Party

A "political base" was established when Jimmy Carter, a member of the Trilateral Commission was elected President of the U.S. Similar political feats were accomplished in England, Germany, France and Japan when key trilateralists moved into high governmental positions.

An Era of Transition for the Earth

After referring to "man's passage to new and larger forms of communal action," (*Ibid.*, p. 712.), Owen ends with these words: "If we can thus understand better the era of transition through which we are passing, it may be easier to look beyond it to new types of international action in the next phase of American Foreign Policy." (*Ibid.*)

An Evolutionary Process Toward Global Governance

In his article Henry Owen was echoing a call for a new international system. He was not alone. Many others in governmental circles, business and the academic world also began to publicly announce that it was now time to begin the next phase or evolutionary step in a movement toward a global system of governance.

A Call for a New World Order

In 1973 Henry Owen served as the editor of a Brookings Institution Book entitled *The Next Phase in Foreign Policy*. In the introduction he echoes his earlier cry of 1968 for a new global system of governance. He stated:

"The men who gathered at Vienna in 1815 to restore the primacy of that state after the Napoleonic wars were skilled and successful, but they failed to understand the new forces unleashed by the political and industrial revolutions of their time. These forces ushered in an age of competitive and popular nationalism which overthrew the dynastic state and led to World War I.

A System of Nation-State Governance Will Not Work in an Era of Technological and Economic Interdependence.

"The statesmen of Versailles tried, like those at Vienna a century earlier, to put the world together again. They were less skillful and at least equally insensitive to the underlying trends that were transforming their age. The Great Depression marked the final breakdown of that age, showing that a system of all-powerful, competing national states simply would not work in an era of technological and economic interdependence. But again, this was not clearly seen at the time. Instead, homeopathic remedies were applied in the 1930s: still more power to national governments and still greater barriers between them. All this culminated in the catastrophe of World War II.

A Time of Major Transition for the Earth

"This is again a time of major transition. It is not merely that the coalitions and policies formed after World War II are eroding. The causes of transition go deeper; Teilhard de Chardin described the process when he spoke of the great unrest that springs from a nobler and deeper cause than the difficulties of a world trying to recover some ancient equilibrium it has lost: we are up against the heavy swell of an unknown sea; we are passing through an age of transition.

The Partial Breakup of the Old World Order

"Transition is a commonplace in history. But currently the term has special meaning. It reflects the partial breakup of a world order in which the nature of power and authority had seemed reasonably clear. Changes are at work in the

industrial and developing worlds which, though very different, now challenge that order.

People Have Looked to the Nation-State for the Last One Hundred and Fifty Years

"For the past century and a half, the peoples of the industrial world have looked to national states and governments to meet their security and economic needs, and to provide a set of values that would give meaning to their lives. Within the nation-state, they have seen central governments as the symbols of national identity and the fountainhead of power and legitimate authority. And among nation-states they perceived adversary and hegemonic relations that provided a congenial outlet both for the aggressive impulses described so well by Konrad Lorenz for animal species and for the collective pride that seems so highly and uniquely developed in humans.

The Modern Industrial Nation-State Is Simply Not Adequate to the Needs of the Last Third of the Twentieth Century

"In the last third of the twentieth century, however, it is becoming increasingly clear that the modern industrial nation-state is simply not adequate to the needs of the day: its reach is too short. And within these states some of the most important problems confronting their people will no longer yield to the powers through which national governments have traditionally made their will prevail: the sword and the public purse.

The Nation-State Has Come to the End of the Road

"This is most evident in the countries of Western Europe, whose governments are dwarfed by the problems with which they must cope. None of them pretends it can defend itself militarily against major attack. In the economic sphere, Rene Foch has observed, the presidents of some multilateral companies now deal on equal terms with heads of European states. Socially and culturally, the tug of subnational communities (Welsh, Scots, Basque) grows. John Galtung suggested that the nation-state, 'that impressive political structure that emerged out of events in the seventeenth, eighteenth, and nineteenth centuries, has in a sense come to the end of the road' and predicted that in 'Europe to be a national politician will have a tinge of the old fashioned, of the man who does not 'quite understand what the end of the twentieth century is about; like the blacksmith in an age of automobiles.'

Notions of Japanese Military Might and Autonomous Action No Longer Command Domestic Support

"Japan's power is more nearly adequate to its needs than that of any European nation; the difference between Japan and individual European countries in this respect is large and important. But Japan's security and economic prospects, too,

depend on circumstances beyond its control – notably U.S. policy and power – and this is widely perceived in Japan. Although the concept of a Japanese national community is still basic, notions of Japanese military might and autonomous action no longer command the domestic support they once did.

The Obsolescence of the Nation-State

"Even in the United States and the USSR – vast continental communities that are less vulnerable to the obsolescence of the nation-state than most industrial countries – traditional national power and authority are being questioned. Social and cultural revolution proceeds in each of these countries, though at widely differing rates and in very different ways. Institutions that formerly provided a stable framework for life – school and family – are changing. Young people are questioning values that have hitherto been accorded automatic assent, or at least questioning society's commitment to these values. As in other industrial societies, the elite have lost their self-confidence, or at least their ability to inspire confidence in others; the rationales that inspired or sanctioned their rule have lost much of their magic.

The Nation-State Will Function Very Differently in the Industrial World in the Last Third of the Twentieth Century

"All this suggests that the nation-state will function very differently in the industrial world in the last third of the twentieth century than it has in the past.

International Forces Such as Trilateralism Are Now Challenging the Nation-State

"Its domination of international relations will be challenged by new transnational forces.

International Institutions Are Emerging Whose Authority Does Not Stop at National Frontiers

"Institutions are emerging whose authority does not stop at national frontiers and whose constituencies reach beyond them. Some are global, like the World Bank and the International Monetary Fund; others are regional, like the European Community; still others are forerunners of a community of developed nations, like the Organization for Economic Co-operation and Development, whose role is expanding.

The Declining Importance of the Industrial Nation-State and National Sovereignty

"Paralleling these is a growing network of private groups and programs that cross national boundaries. The result is an untidy and eclectic pattern, but one that unmistakably reflects the declining importance of the industrial nation-state.

The Decline of the Nation-State and National Sovereignty Has Been Masked

"To some extent the decline has been masked by the outsize part the United States has played in world affairs since World War II. Unilateral U.S. action has met the needs of industrial nations – in defense, economic policy, and other areas. But it is becoming clear that this was an unnatural and short-lived phenomenon. The American people and the people of other developed countries are resentful, in different ways, of the asymmetrical burdens and responsibilities it has involved. Our role is shrinking, but the needs remain, and no other nation-state is strong enough to meet them.

The Question of Whether New Forms of Transnational Public and Private Action Will Emerge

"The question is whether new forms of transnational public and private action will emerge in time to fill the gap and prevent the industrial world from falling back into disordered patterns of interstate relations, which did not work too well in their heyday and are now hopelessly inadequate.

A Different Revolution is Occurring in the Developing Countries

"In the developing world a different revolution is a work. All historical analogies are imperfect, but there are at least two similarities between this revolution and the developed world's somewhat less abrupt entrance into the modern era two centuries ago. One is the dawning realization of peoples in developing countries that the physical environment can be changed for the better by human effort. Another is the raising of the nation-state, even as its primacy declines in the industrial world, to the highest place among popular symbols.

Two Forces Are at Work in the Developing Countries

"These two forces – nationalism and belief in progress – are working to unsettle the outlook and physical surroundings of a large part of the Third World's population, even as a like transformation of attitudes set the West off on its explosive course in the late eighteenth century. Conceivably these forces may work themselves out into new patterns of stability; however, there are many obstacles. For belief in progress, even among the elite, arouses in developing nations a mounting preoccupation with economic development, while the barriers to its fulfillment are formidable.

Growing Nationalism in the Third World Strengthens Autarkic Tendencies

"And growing nationalism not only spurs modernization; it also enlarges these barriers by strengthening autarkic tendencies and encouraging conflicts between nations.

The Problem Is Compounded by Population Increase and the Growing Number of Educated People

"The problem is compounded not only by population increase but by the growing number of educated people who are aware of the widening gap between living standards in the developed and developing world, and who are concentrated in overcrowded, potentially explosive cities where unemployment is rising at a frightening pace. Alastair Burnet put it well:

Calcutta may have 15 million people if life does not break down entirely in this decade; Buenos Aires may have 10 million; Cairo 6 million. And if the pace of industrial growth is not fast enough – and it is certainly not now – then it will be prudent to expect serious and bloody attempts at revolution there. What we are seeing from urban guerrillas in Latin America is only, I suspect, a beginning. It is the gloomiest prospect of all in this decade.

A Problem That Will Not Yield to Traditional Remedies

"Meanwhile, developed and developing nations alike will face a common threat: man's spoilage of the earth may make it an increasingly inhospitable environment. This is not primarily a matter of being unable to grow enough food, but rather of lacking the clean air and water and open spaces that have so much to do with the quality of life. Rats grow tense and nasty if crowded together; man may follow suit, if they do not first, quite literally, suffocate under the blankets of smog spreading over the Northern Hemisphere. Here too is a problem that will not yield to traditional remedies.

The Obstacles Posed by Inertia and National Parochialism

"All this suggests a need for new policies and for new forms of international cooperation in carrying them out. It is tempting to conclude that these policies will automatically come into being, that the obstacles posed by inertia and national parochialism will fade away in the face of evident need. But they will not. Long forgotten are not only statesmen who ignored change but observers who misjudged its pace. In the late nineteenth century, as economic growth and education seemed to be marching forward irresistibly, men succumbed to the illusion of perpetual peace and progress. But as the Swiss historian Jacob Christoph Burckhardt predicted at the time, all this only culminated in larger wars and more effective tyrannies. Burckhardt was thought insensitive to change and progress, just as were those who in the 1920s challenged the notion that the spread of democracy in

Western Europe after World War I ensured against a recurrence of war. Two decades later, a man brought to power by German universal suffrage invaded Poland for the oldest of reasons – to recover lost lands and peoples – and France and England entered the war for another ancient reason – to maintain the balance of power.

Basic Human Attitudes and Institutions Change Slowly

"Basic human attitudes and institutions change slowly. Deep-rooted shifts are at work, but it will be a long time before they achieve results.

Utilizing the Nation-State to Mobilize Large Resources

"In the developed world, the nation-state is still the most effective means for mobilizing large resources; and – at least in the United States, the USSR, and Japan – it still commands loyalty that can be translated into usable power. Even Western Europe, which has sought to organize itself regionally, remains divided into nation-states; the European Community has not replaced these states in key areas of decision making; and their relations with each other still reflect a traditional concept of status and prestige.

The Nation-State is Anachronistic

"That this concept is anachronistic does not make it disappear. Nor does its rejection by the young in many developed nations – they are not in charge of governments. And growing awareness that these nations face common problems – urbanization, pollution, and youth alienation – has not yet healed the divisions that keep them apart.

The USSR Still Envisages a Self-Perpetuating Monopoly of Political Power

"The innate conservatism of governments and dominant political forces in the industrial world is evident in both noncommunist and communist countries. Soviet leaders agreed to promising initiatives for bilateral cooperation with the United States at the 1972 summit meeting, but they still envisage a self-perpetuating monopoly of political power at home and unchanging dominion over their neighbors in Eastern Europe. They are not likely to join in multilateral ventures that might place these objectives in jeopardy.

Conservatism in the U.S., Western Europe and Japan

"In the United States, Western Europe, and Japan, conservatism is evident in other ways: it pits these great industrial areas against each other in economic conflicts that owe more to habits of thought developed by Jean Baptiste Colbert three centuries ago than to the emerging fact of interdependence.

The Attitudes of the Elite Who Have Traditionally Held Power in the U.S., Western Europe and Japan

"Progress in the developing world, too, is hobbled by attitudes and institutions that resist needed change. Attitudes of the elite, who have traditionally held power in these regions, and of the emerging intelligentsia are ill attuned to the requirements of economic growth. The international cooperation required to promote such growth will be even harder to achieve in the developing than in the industrial world: the nation-state is still on the ascendant in the Southern Hemisphere.

Success Hinges on Decisions Made by Effective Political Entities

"Economic growth will not, of course, turn back the threat of great damage to the earth, but neither will international Earth Days or UN resolutions. Success still hinges on decisions made by effective political entities, whether they are national governments or new international organizations with tangible powers.

New Needs Must Be Confronted in the Context of Ancient Institutions and Attitudes

"The basic point is this: although new trends generate new needs and problems, these must be confronted in the context of ancient institutions and attitudes. An old epoch is dying, but a new one has not yet come of age. The resulting conflict between changing needs and traditional means of meeting them runs through most of the chapters in this book [*The Next Phase in Foreign Policy*]. Although no attempt was made to prescribe their thrust, similar themes nonetheless emerge as a result of the underlying trends that the authors have had to take into account.

The Need for Close Relations between the U.S., Japan and Western Europe

"The need for close relations between the United States and the great industrial regions (Japan and Western Europe) in devising new approaches to the economic problems that should be the main focus of U.S. foreign policy in this decade.

The Need for a More Modest Definition of Our Security Interests and for Giving Greater Weight to Multilateral Means

"The need for a more modest definition of our security interests in the developing world, and for giving greater weight to multilateral means of advancing our long-term interest in the world's growth.

The Need for Patiently Seeking Common Interests with the USSR and China

"The need for patiently seeking common interests with the USSR and China, without expecting rapid or dramatic breakthroughs...." (The Brookings Institution, Washington, D.C., 1973, pp. 2-8.)

The Nation-State Is an Outdated Concept

It is evident that Henry Owen feels that "a system of all-powerful, competing national states simply would not work in an era of technological and economic interdependence." He states that "this is again a time of major transition." In fact he again notes that "we are passing through an age of transition." (*Ibid.*, p. 3.)

The End of National Sovereignty and Nationhood

This transition, as noted earlier, is the transition from a system of governance by individual nations to a system of global governance where decisions are made at the international level and simply transmitted downward for implementation. Mr. Owen is heralding the end of national sovereignty and nationhood as we have heretofore known it.

The Evolving Power of International Institutions

Mr. Owen continues: "In the last third of the twentieth century, however, it is becoming increasingly clear that the modern industrial nation-state is simply not adequate to the needs of the day; its reach is too short." (*Ibid.*) He goes on to state that "within these states some of the most important problems confronting their people will no longer yield to the powers through which national governments have traditionally made their will prevail...." (*Ibid.*, pp. 304.)

The Nation-State Has Come to the End of the Road

He then quotes John Galtung who suggested that the nation-state "has in a sense come to the end of the road." (*Ibid.*, p. 4.)

The Obsolescence of the Nation-State

Occasionally Mr. Owen refers to the "obsolescence of the nation-state" when he advances his world order policies for the future.

A New Role for the Nation-State in the Near Future

Owen feels "the nation-state will function very differently in the industrial world in the last third of the twentieth century than it has in the past." He states that the nation-states "domination of international relations will be challenged by new transnational forces." (*Ibid.*)

The Emergence of International Institutions with Governmental Authority

Owen notes that "institutions are emerging whose authority does not stop at national frontiers and whose constituencies reach beyond them. Some are global, like the World Bank and the International Monetary Fund; others are regional, like the European Community; still others are forerunners of a community of developed nations, like the Organization for Economic Cooperation and Development, whose role is expanding." (*Ibid.*, p. 5.)

The Foundation for a New World Order

What Mr. Owen has just told us is that there are international institutions such as the IMF and OECD now have sufficient power as to be immune to governance by individual nations. The foundation for global governance is in place and it is sufficiently strong that it is not limited by national frontiers. In other words it has power to enforce its will, even on the U.S.

The OECD Is a Forerunner of a World State

Organizations such as the OECD in Paris, according to Owen, are simply the forerunners of the new superstate or community of nations.

A Growing Network of Private Groups and Programs

Owen states that paralleling the development and strengthening of international institutions in preparation for global governance "there is a growing network of private groups and programs that cross national boundaries." Leading the flock of private organizations is the Trilateral Commission with headquarters in New York, Paris, and Tokyo. Other private groups include the Atlantic Institute for International Affairs in Paris, the Royal Institute of International Affairs in London, the Council on Foreign Relations in New York, the German Society for Foreign Policy in Bonn, the Atlantic Council of the United States in Washington, the NIKKO Research Center in Tokyo, etc.

The Foundation for Global Governance

Owen concludes that with the foundation for global governance which is now in place (the IMF, OECD, World Bank, GATT, BIS, Economic Summitry) the "growing network of private groups and programs...unmistakably reflects the declining importance of the industrial nation-state." (*Ibid.*)

A Gradual Transition into Global Governance

Owen feels that the transition into a system of global governance constitutes a "revolution," although the majority of the people in the U.S., Western Europe and Japan are totally unaware of the gradual transition from nation-state governance.

Today's Problems Require International Solutions

Owen states that the variety of problems facing the nations of the world "suggests a need for new policies and for new forms of international cooperation in carrying them out. It is tempting to conclude that these policies will automatically come into being, that the obstacles posed by inertia and national parochialism will fade away in the face of evident need. But they will not." (*Ibid.*, p. 6)

Owen feels that solutions to problems afflicting mankind can only be solved by a system of global governance with decisions and solutions emanating from the highest places.

Utilizing the Nation-State to Redistribute Income and Resources throughout the World

Owen continues: "In the developed world, the nation-state is still the most effective means for mobilizing large resources; and – at least in the United States, the USSR and Japan – it still commands loyalty that can be translated into usable power." (*Ibid.*, p. 7.)

A System of Global Taxation

Owen feels that because there is a lack of some system of global taxation for raising revenue the nation-state should continue to be used to generate "resources" for distribution throughout the world. After the total transition of the nation-state into a system of global governance perhaps the individuals will pay taxes directly to the U.N. or such international bodies as the IMF, OECD, World Bank, etc. (See Kingman Brewster, Jr., *Foreign Affairs*, April 1972, Vol. 50, No. 3, p. 413, for a global taxing scheme.)

Western Europe Is Still Not Organized under a Single Central Government

Owen next states: "Even Western Europe, which has sought to organize itself regionally, remains divided into nation-states; the European Community has not replaced these states in key areas of decision making; and their relations with each other still reflect a traditional concept of status and prestige. That this concept is anachronistic does not make it disappear." (*Ibid.*)

The Nation-State Is a Hindrance to Global Government

Once again Owen states that the nation-state is "anachronistic" and a hindrance to the development of a new world order.

Soviet Leaders Are Not Ready at Present to Join the Concert of Powers

Owen feels that the "innate conservatism of governments and dominant political forces in the industrial world is evident in both noncommunist and communist countries." (*Ibid.*)

Sharing of Power in the Evolving Global System

The elite which governs Russia and China have not attained sufficient maturity to merge with the concert of powers into a system of global governance – "they still envisage a self-perpetuating monopoly of political power." (*Ibid.*) Since power would have to be shared in the concert of nations, Russia at this stage is not yet prepared for merger. However, they are slowly being drawn into the new international economic system through international trade, finance, etc. According to Owen it is only a matter of time and patience until the elite in Russia and China decide to enter the evolving global system of governance. At that time there will be only one economic system on the planet instead of the two which exist at this time.

Conditioning the People to Think Interdependently Instead of Independently

Owen notes that in "the United States, Western Europe, and Japan, conservatism is evident in other ways: it pits these great industrial areas against each other in economic conflicts that owe more to habits of thought developed by Jean Baptiste Colbert three centuries ago than to the emerging fact of interdependence." (*Ibid.*) It is, therefore, necessary for new ways of thinking to occur in the trilateral nations. People in these areas are now being encouraged to think interdependently. Television, journals and magazines have followed the tune played by the trilateralists and others so that today almost everyone is thinking interdependently, instead of independently.

The Developing World Is Hobbled by Traditional Attitudes and Institutions

Owen states that "progress in the developing world, too, is hobbled by attitudes and institutions that resist needed change. Attitudes of the elite, who have traditionally held power in these regions, and of the emerging intelligentsia are ill attuned to the requirement of economic growth. The international cooperation required to promote such growth will be even harder to achieve in the developing than in the industrial world; the nation-state is still on the ascendant in the Southern Hemisphere." (*Ibid.*)

Obstacles to a New World Order

According to Mr. Owen the nation-state is a hindrance to developing a new world order. Besides the problem of the nation-state, the elites who govern the developing world have not yet reached sufficient maturity, in world order political

and economic thinking, to share power or to be subordinate to a system of global governance.

Economic Growth Depends Upon Effective Political Entities

Owen feels that economic growth or free trade "still hinges on decisions made by effective political entities, whether they are national governments or new international organizations with tangible powers." (*Ibid.*, p. 8.)

Confronting New Needs in the Context of Ancient Institutions and Attitudes

According to Owen: "The basic part is this: although new trends generate new needs and problems, these must be confronted in the context of ancient institutions and attitudes. An old epoch is dying, but a new one has yet come of age. The resulting conflict between changing needs and traditional means of meeting them runs throughout most of the chapters in this book [*The Next Phase in Foreign Policy*]." (*Ibid.*)

A Great Conflict Is Occurring Between the Forces of Global Governance and the Advocates of Nation-State Governance

Owen has given the reader a very important key in this passage: the great conflicts occurring throughout the world are between the forces favoring the more traditional system of nation-state governance. The importance of this statement should not be overlooked. The agents of the rich industrial powers or concert of power are gaining the upper hand as the new international system unfolds. The conflicts can be observed on the front pages of nearly every newspaper. However, persistence is one of the greatest traits of those who favor global governance. Power, prestige and wealth are currently the aces which the agents of world order politics hold against the communist and developing countries.

The Emergence of Similar Themes in Owen's Book

Owen notes that "similar themes, nonetheless, emerge as a result of the underlying trends that the authors in *The Next Phase in Foreign Policy* have had to take into account...." The similar themes are:

"The need for a more modest definition of our security interests in the developing world, and for giving greater weight to multilateral means of advancing our long-term interest in that world's growth.

"The need for patiently seeking common interests with the USSR and China, without expecting rapid or dramatic breakthroughs." (*Ibid.*)

The Main Focus of U.S. Foreign Policy in the 1970s

In other words, the main focus of the 1970s in U.S. foreign policy was to launch trilateralism and to deepen trilateral ties with Russia and China as they slowly make the transition to global governance in the evolving new world order.

The Age of the Nation-State Is Drawing to a Close

In the conclusion to *The Next Phase in Foreign Policy*, Owen writes:

"The world order that existed before 1914 has been destroyed by a half-century of war and revolution. It has been suggested in this book that in the industrial world, at least, the age of the nation-state is drawing to a close. The question is, What will take its place – an era of intermeshing private and public international communities or a world of polyarchic disorder? The United States has a substantial interest in the outcome.

The Dream of the Founding Fathers Is Gone

"The day when Americans could speak, as John Adams did, of producing a grand design that would illuminate the future of mankind is gone. We have learned that it is hard enough to grapple with our own problems without trying to guide and instruct others; our main object in the 1970s will be to shape our own institutions and way of life. Foreign policy will be successful if it enables us to do just this, free from external threats and pressures.

The U.S. Needs to Join the Concert of Power

"These are parochial goals, but they cannot be achieved by parochial courses of action. America's involvement in the world is now so large that neither its peace nor its freedom to shape its own future can be assured unless it joins others in trying to create an environment in which certain pressing international needs can be met effectively.

The Chief Objective of U.S. Foreign Policy in the Post-Cold War Era

"Immediately after World War II, when East-West problems were dominant, these needs were most evident in the security field; and they were met, at least in part, unilaterally by the United States. In the seventies, the focus will shift to economic needs within the noncommunist world, and these will have to be met multilaterally as our unilateral role diminishes. Helping to create a world order in which international action for this purpose can be mounted should be a chief objective of U.S. strategy in the post-cold war era we are now entering. This chapter tries to summarize that strategy in relation to the regional and functional areas discussed earlier in the book.

Mobilizing Multilateral Cooperation

"The United States will have to be innovative to advance this strategy, since the obstacles to early European or Japanese action are large. Innovation will only be effective in mobilizing multilateral cooperation, however, if it incorporates heightened regard for the attitudes and interests of other nations. Nowhere is this need more evident than in our relations with other industrial regions.

The United States, Western Europe, and Japan Should Form a New Concert of Power

"Western Europe and Japan are where the power is. Outside the United States, only these areas of the noncommunist world have the capital and technology to create great economic and military strength. Rifts between them and the United States could damage the attempt to meet important international needs beyond repair. Without concert among industrial regions on aid and other economic policies toward developing countries, progress in the Third World would be slowed. If Europe and Japan refused to cooperate in trade and monetary reform, such reform would be impossible to achieve; many countries, including the United States, could suffer economic damage. More seriously if less probably, should Japan be moved by growing alienation from the United States to rely increasingly on national means to assure its security, peace might be threatened in Asia; transatlantic disputes and resulting disorder in the Atlantic world could revive Soviet ambitions and prejudice the stabilization of East-West relations in that area.

Economic Relations with Western Europe and Japan

"Whether Europe and Japan become alienated from the United States will depend on how economic issues that affect the interests of large and powerful domestic groups are handled.

Conflicts between the Forces of Global Governance and the Advocates of National Sovereignty Will Grow

"As suggested in Chapter 9, two contradictory impulses will govern economic relations among the industrial countries. On the one hand, the logic of their economic interdependence will grow, increasing the need for joint programs and institutions to meet common economic problems. On the other hand, the fact of political national independence will remain; parochial national attitudes and interests show few signs of withering.

Tension Between the Forces of Economic Interdependence and Political Independence Will Focus on Three Main Areas

"Continuing tension between these two impulses – toward economic interdependence and political independence – will focus on three main areas.

Conflict Over Monetary Policy

1. *Monetary policy.* The differing domestic economic policies that industrial countries pursue will periodically produce the need to alter the relation between their currencies. Under present arrangements, as the monetary crises since August 1971 makes very clear, such shifts can be accomplished only with difficulty and at some political cost. This poses special problems for the United States because of the global role of the dollar. These problems will persist and recur until (1) some means of adjusting exchange rates more flexibly and frequently is agreed upon by the principal industrial nations; and (b) the International Monetary Fund (IMF) or some other international institution is endowed with the attributes of a central bank, and an international unit of account is substituted for the dollar as the principal reserve currency of the noncommunist world.

Conflict Over Trade

"2. *Trade.* As the developed nations' economies tend to merge, barriers to trade among them are increasingly anachronistic. But these barriers were erected by politically powerful and economically vulnerable domestic interests and will not be easy to break down. Indeed, there is some risk that they will be strengthened as growing international trade becomes a threat to inefficient domestic industries. Resulting trade wars among the developed countries might not greatly retard their economic growth, but they would surely create political tension. In this situation, the advice of a British World War II infantry manual is sound: the best way to avoid mortar fire is to go forward. The object of a new round of global trade negotiations should be to reduce tariffs among the developed countries to zero over a ten-year period and to reduce nontariff barriers to manageable proportions. Success in this effort will require that the United States and other industrial countries devise some effective means of providing adjustment assistance to the domestic interests most directly affected.

Conflict Over Agriculture

"3. *Agriculture.* A major trade problem is that the industrial world produces a good deal more food than it can consume or export at prices that would not disrupt world markets. The problem is complicated by the political importance of farmers in most of these countries. It cannot be solved by any single industrial country or by negotiations between such countries that do not result in large changes in their domestic policies. The object should be to secure agreement among major industrial countries on domestic support and adjustment policies that provide for long-term shifts of people and resources out of agriculture into more rewarding fields. The obstacles to an international negotiation for attaining this goal are immediately evident.

Bending the Political Prerogatives of the Nation-State to the Economic Needs of Interdependence

"The chief business of the developed countries in this decade – aside from the provision of aid to poor nations – will be to address these three economic problems. Bending the political prerogatives of the nation-state to the economic needs of interdependence will require that the larger political considerations involved be brought to the attention of the public.

The Role of Economic Summitry

"This is more likely to occur if negotiations can be launched with a powerful political impulse involving the active participation of heads of government.

The 1950s and 1960s Were Dominated by the Objective of an Atlantic Partnership Between North America and the EEC

"Such an impulse will be easier to generate if there is a shared perception of long-term goals. Lord Acton was not far wrong when he spoke of that remote and ideal object that captivates the imagination by its splendor and the reason by its simplicity and that thus evokes an energy which could not be generated by less, more proximate goals. In the fifties and sixties, that remote and ideal object was seen as an Atlantic partnership between North America and a uniting of Western Europe.

The 1970s Were Dominated by the Goals of Trilateralism

"In the seventies, it should be thought of as a trilateral relation between the United States, Western Europe, and Japan. Our stake in a workable connection with Western Europe is as great as ever, as is our stake in the greater unity that would enable Western Europe to act more effectively; but it is clear that many of the problems confronting the United States and Europe cannot be resolved except in a larger framework, which includes Japan.

The Need for Programs, Arrangements and Institutions to Bring the Trilateral Nations Together for Joint Action

"The need will be not for a supergovernment that places these three industrial areas under some formal structure, but rather for a wide variety of arrangements, programs, and institutions that bring them together for joint action in meeting common problems. In these, Canada should surely join.

The Result of Trilateralism Is a New World Superstate or Community of Developed Nations

"The resulting community of developed nations need not be a rich man's club. In close concert, these nations could not only maintain their own prosperity and security, but also work more effectively with developing countries to implement policies that would hasten growth in the developing world.

Efforts to Draw the USSR and the Nations of Eastern Europe into the New Concert of Powers

"Nor should this community develop into an anticommunist coalition. Efforts should be made to draw the USSR and the nations of Eastern Europe into its cooperative ventures.

The Structure of Relationships for Political-Military Fields

"Pressing issues in the political-military field will interact with the economic issues described above and will have to be addressed by the industrial countries. These political-military issues...run bilaterally between the United States and Western Europe and the United States and Japan, rather than trilaterally among the three industrial regions, as in the economic field....

Trilateralism Contains a Coherent Set of Goals and a Long-Term Strategy

"The specific courses of action suggested in this chapter [the conclusion] may be outrun by events or otherwise made obsolete, but the general concepts should endure. They are the heart of the matter. For it will be difficult to accommodate to accelerating world changes unless we have a coherent set of goals and a long-term strategy for attaining them. Failing this, the United States will be drawn into a succession of ad hoc responses to new problems which will add up to holding actions at best and to mutually offsetting and contradictory measures at worst. In a period of diminishing U.S. influence, it will be more important than ever to have a clear sense of the priorities that should govern its use:

Creation of a Community of Developed Nations Should Be Our First Order of Business

"Creation of a working community of developed nations, which would include the United States, Western Europe, and Japan, should be our first order of business. The economic field is where such a community is most likely to take form. Global negotiations to deal with growing interdependence in trade, monetary policy, and agriculture should be pursued to this end.

Redistributing Income and Resources Should Be a High Priority Task of This Community

"The transfer of substantial resources from rich to poor nations through multilateral programs and institutions and through sensible trade policies should be a high-priority task of this community. It is one of the few ways in which useful action can be taken to reduce the risks of growing violence and chaos in the developing world. By contrast, it is difficult to foresee contingencies in which deployment or use of U.S. military power in that world will make sense: our vital security interests there are limited to the Caribbean, Israel, and Northeast Asia.

The USSR Could Eventually Play a Role in the Community of Developed Nations

"The United States should persist in the effort to find and act on interests that it shares with the Soviet Union and China. Success will hinge on our ability to keep at it over a long period of time, despite the natural tendency to vacillate between extremes of hostility and euphoria. Progress in building a working community of developed nations, in which the USSR could eventually play some role, may hasten success in this effort if we do not allow ups and downs in East-West relations to divert attention from this central task...." (*Ibid.*, pp. 309-313, 329-330.)

The Age of the Nation-State Is Drawing to a Close

In the above quoted material, Mr. Owen states that the book, *The Next Phase in Foreign Policy*, suggests "that in the industrial world, at least, the age of the nation-state is drawing to a close." He asks a very pertinent questions: "What will take its place...." (p. 309.)

The End of the American Dream

Owen concludes that the "day when Americans could speak, as John Adams did, of producing a grand design that would illuminate the future of all mankind is gone." (*Ibid.*) He feels that:

"In the seventies, the focus will shift to economic needs within the non-communist world, and these will have to be met multilaterally as our unilateral role diminishes. Helping to create a world order in which international action for this purpose can be mounted should be a chief objective of U.S. strategy in the post-cold war era we are now entering." (*Ibid.*)

Where the Power Lies on the Earth

Owen also states: "Western Europe and Japan are where the power is.... Without concert among industrial regions on aid and other economic policies

toward developing countries, progress in the Third World would be slowed." (*Ibid.*, p. 310.)

The Two Impulses Which Will Govern Economic Relations

He feels that "two contradictory impulses will govern economic relations among the industrial countries. On the one hand, the logic of their economic interdependence will grow, increasing the need for joint programs and institutions to meet common economic problems. On the other hand, the fact of political national independence will remain; parochial national attitude and interests show few signs of withering." (*Ibid.*) In other words, there will continue to be conflict with the forces who favor global governance and those who favor nation-state governance, at least for the foreseeable future.

Trilateral Monetary Policy

In discussing monetary policy, Owen feels that problems will continue until "(a) some means of adjusting exchange rates more flexibly and frequently is agreed upon by the principal industrial nations; and (b) the International Monetary Fund (IMF) or some other international institution is endowed with the attributes of a central bank, and an international unit of account is substituted for the dollars as the principal reserve currency of the non-communist world." (*Ibid.*, p. 311.)

A Significant Step Toward Global Governance

What Mr. Owen is proposing is a significant step toward global governance inasmuch as he is proposing that the IMF become the world's central bank. He is also proposing a single international reserve currency for the non-communist world.

Trade Wars

In discussing trade matters, Mr. Owen feels that "trade wars" might occur in the 1970s as "growing international trade becomes a threat to inefficient domestic industries." (*Ibid.*)

The Object of the Multilateral Trade Negotiations

Owen notes that the "object of a new round of global trade negotiations should be to reduce tariffs among the developed countries to zero over a ten-year period and to reduce nontariff barriers to manageable proportions." (*Ibid.*)

Owen Calls for a Reduction in Food Production

In reference to agriculture Owen notes that a "major trade problem is that the industrial world produces a good deal more food than it can consume or export at

prices that would not disrupt world markets." (*Ibid.*) He feels that industrial nations should discontinue producing more food than they consume. He states that the main objective "should be to secure agreement among major industrial countries on domestic support and adjustment policies that provide for long-term shifts of people and resources out of agriculture into more rewarding fields." (*Ibid.*, pp. 311-312.)

A Call for Implementing Economic Summits

Mr. Owen next calls for the implementation of what we now term "economic summits."

"Bending the political prerogatives of the nation-state to the economic needs of interdependence will require that the larger political considerations involved be brought to the attention of the public. This is more likely to occur if negotiations can be launched with a powerful impulse involving the active participation of heads of government.

"Such an impulse will be easier to generate if there is a shared perception of long-term goals." (*Ibid.*, p. 312.)

The First Economic Summit at Rambouillet

What Mr. Owen proposed became a reality in 1975 with the inauguration of the first economic summit at Rambouillet. Each year the heads of the leading industrial nations have met at an economic summit to formalize joint action and programs for the trilateral nations. The summits will be discussed shortly.

Trilateralism – The Beginning of a New Era in U.S. Foreign Policy

Mr. Owen next pronounces the end of Atlanticism and announces the beginning of a new era in U.S. foreign policy – the era of trilateralism.

"In the fifties and sixties [the] remote and ideal object was seen as an Atlantic partnership between North America and a uniting Western Europe. In the seventies, it should be thought of as a trilateral relation between the United States, Western Europe and Japan." (*Ibid.*)

The Role of Economic Summitry

He next announces the purposes or role which economic summitry was to play.

"...Many of the problems confronting the United States and Europe cannot be resolved except in a larger framework, which includes Japan. The need will be not for a supergovernment that places these three industrial areas under some formal structure, but rather for a wide variety of arrangements, programs, and institutions

that bring them together for joint action in meeting common problems. In these, Canada should surely join." (*Ibid.*)

Institutionalization of Supra-National Government

The institutionalization of economic summitry took place at the London summit in 1977 with the assistance of Henry Owen. He stated that the "resulting community of developed nations need not be a rich man's club." He feels that the trilateral nations by working in "close concert...could not only maintain their own prosperity and security, but also work more effectively with developing countries to implement policies that would hasten growth in the developing world. Nor should this community develop into an anti-communist coalition." (*Ibid.*)

A Merger of East and West into a New Global System of Governance

Owen states that Russia and the former COMECON nations should be drawn into the new global system: "Efforts should be made to draw the USSR and the nations of Eastern Europe into its cooperative ventures." (*Ibid.*)

The Emergence of a Powerful New Superstate

Once we have merged the U.S., Western Europe (EEC), Japan, the USSR and the COMECON nations into one "international system," Mr. Owen feels that this powerful new super-state will be able to persuade the third world – the developing countries – to follow their joint policies and programs without opposition. Today the developing nations are jointly calling for a "new international economic order," which is somewhat different from the trilateral plan for a new international economic system.

A Key to Understanding U.S. Foreign Policy in the 1970s

In order to understand U.S. Foreign Policy in the 1970s, the reader should carefully study *The Next Phase in Foreign Policy* inasmuch as the key authors in this book moved into high positions within the Carter Administration. Their common policies and programs were advanced and implemented. In fact, many of the Carter Administration policies were previously outlined in the book. Editor Henry Owen has noted:

"The specific courses of action suggested in this chapter [the conclusion] may be outrun by events or otherwise made obsolete, but the general concepts should endure. They are the heart of the matter. For it will be difficult to accommodate to accelerating world changes unless we have a coherent set of goals and a long-term strategy for attaining them." (*Ibid.*, p.329.)

A Coherent Set of Goals and Long-Term Strategy Dominates the Carter Administration

Perhaps no other administration was better equipped with a set of concrete plans, ideology and power to accomplish a set of specific goals – the goals of trilateralism – than the Carter Administration. Indeed it had "a coherent set of goals and a long-term strategy for attaining them."

The Core Philosophy of Trilateralism

The goals set forth by Owen (*Ibid.*, pp. 329-330) of creating a community of nations, transfer of resources to the third World and seeking greater degrees of cooperation with China and the Soviet Union formed the basic core philosophy of what was soon to become known to the world as trilateralism.

The reader should recall that Mr. Owen's statements were made in 1968 and 1973. His views are shared by his colleague, Zbigniew Brzezinski, who in 1970 also outlined the new philosophy which was to become known as "trilateralism." (See Brzezinski's book *Between Two Ages – America's Role in the Technetronic Era.*) The philosophy of trilateralism was also expounded by David Rockefeller at the Bilderberg meetings in 1972 at Knokke, Belgium.

III. The Role of Economic Summitry: To Institutionalize Trilateralism

With a philosophical groundwork for trilateralism laid it was then time to institutionalize the new concept. This was accomplished when the Trilateral Commission was organized in 1973 with the headquarters in New York, Paris and Tokyo. Dr. Zbigniew Brzezinski became its first director and served in this capacity till he entered the Carter Administration. Henry Owen, in the meantime, was at Brookings where the institution set up what was to become a series of tripartite studies with authors coming from the U.S., Western Europe and Japan.

Tripartite Studies at the Trilateral Commission and at Brookings

The Trilateral Commission began a series of tripartite studies also and they became known as the *Triangle Papers* was to allow authors from different countries to begin examining problems with a global perspective instead of through the eyes of the traditional nation-state.

Accustoming the Ruling Elites to Working Together

The Trilateral Commission began holding meetings of its membership which consisted of the ruling elites from the U.S., Western Europe and Japan. This high powered Commission was attempting to accustom people to working together first in a private setting. After four years of such meetings key individuals were now ready to begin moving further toward global governance.

Members of the Trilateral Commission in the White House

Fortunately, for the Trilateral Commission, Jimmy Carter, a member since 1973, was elected President of the U.S. He then took with him a goodly portion of the Trilateral team into the White House. These include Mondale, Vance, Brzezinski, Brown, Cooper, Gardner, Owen, etc. Members of the Commission had accepted the idea of a need for the convergence or harmonization of the economics of the western industrial nations. A number of important publications had outlined the need for greater international cooperation between the United States, Western Europe and Japan. These reports included Miriam Camp's study for the Council on Foreign Relations in New York entitled "The Management of Interdependence" (1974); the Atlantic Council's of Washington study entitled "Beyond Diplomacy" (1975); two reports of the Trilateral Commission in New York entitled "The Problem of International Cooperation" (1976) and "The Reform of International Institutions" (1976); and the Atlantic Council's study entitled "Harmonizing Economic Policy: Summit Meetings and Collective Leadership" (1977).

The Foundation Was Laid for Further Evolution Toward Global Governance

These studies laid the foundation for international cooperation in the 1970s and 1980s. Several of the reports called for the establishment and strengthening of the institutional mechanism known as economic summits.

The Trilateral Commission Report Calls for Convergence of Economic Policy

"The Crisis of International Cooperation," a Trilateral Commission document written in 1973 by three highly influential academics – Francois Duchene, Director of the International Institute of Strategic Studies in London; Kinhide Mushakoji, Director of the Institute of International Relations for Advanced Studies on Peace and Development in Asia (Tokyo); and Henry D. Owen, Director of the Foreign Policy Studies Program at the Brookings Institution in Washington, D.C. – called for the establishment of an intergovernmental mechanism to facilitate convergence of the economics of the U.S., Western Europe and Japan.

A Call for Changes in the Present Structure of Decision Making

The report called for "changes in the structures of decision making" within the nation-state apparatus. (*The Crisis of International Cooperation*, New York: The Trilateral Commission, 1973, p. 35.) The rapporteurs are hopeful that "mankind can muster the political will to manage common problems collectively." (*The Crisis of International Cooperation*, p. 36.) In other words they are hopeful that mankind will now move into a state of global governance. They feel that international cooperation has developed furthest among the advanced "industrial societies, especially North America, Japan and Western Europe" and "that cooperation between the industrial democracies [is] central to the future world system." (*The Crisis of International Cooperation*, p. 37.)

The International System Now Requires Common Management

Duchene, Mushakoji and Owen have stated that the international economic system must be thoroughly renovated.

"The system must either be reformed or founded in a rebirth of economic nationalism. Simply stated the problem is a structural one.

"The international system, which depended heavily on U.S. leadership and sustenance, now requires a truly common management to which North America, the European Community and Japan must – in view of their large economic power – make a special contribution. For the United States, this means a sense of loss of power because decisions have to be shared more than in the past; for the European Community and Japan it means a sense of burden, because new responsibilities have to be assumed and, in some cases paid for.

"For all three, the shift from a leadership system to one of genuine collective management, involving not only the three main industrial market economies but other countries as well, calls for what Robert Frost called 'the courage to be new.'" (*The Crisis of International Cooperation*, p. 40.)

Leading Industrial Nations Are Being Guided into a System of Global Governance

What Duchene, Mushakoji, and Owen have just stated is that the leading industrial nations are being guided into a system of global governance. The United States, Japan, England, France, Germany, Canada, and Italy are to be managed by international institutions and inter-governmental mechanisms. The IMF, OECD and Economic Summits will play a key role in global management of the western world. Eventually Russia, China and other Eastern nations are to be drawn into the new international economic and political system.

The Loss of National Sovereignty

Concerning the loss of national sovereignty, Duchene, Mushakoji and Owen note:

"In a world where economic interchange are increasingly international but responsibilities are national, each government, and even each legislature, experience the new development as a loss of control. In its efforts to ward off external complications a government tends, at least in part, to take defensive measures – which export them back to the outside world, that is, to the other participants in the system. Not surprisingly, the level of confrontation rises to the detriment of the general interest.

"This loss of national sovereignty, painful to each society and government individually, must lead in one of two directions in an interdependent system which is unlikely to break up. Either there will be progress toward international cooperation or dealing with the symptoms rather than the underlying disturbances, national governments will seek to exploit the so-called 'asymmetrics' of the situation." (*The Crisis of International Cooperation*, p. 42.)

A Loss of Power and Control by National Governments and Legislature

According to Duchene, Mushakoji and Owen, as we move from a system of nation-state governance to a global system of governance each government and legislature will lose power and control over its decision-making capabilities, at least in certain areas. When this loss of control occurs the individual nations in an attempt to maintain their national sovereignty will take defensive measures such as raising tariffs or refusal to comply with decisions made at the international level. The loss of national sovereignty of each nation will lead either to greater international cooperation or exploitation of the international system by individual, national governments. The end result will be conflicts on every continent in the world.

Conflicts Throughout the World

The conflicts that we see occurring today throughout the world are clashes between the forces of global governance and the forces of nationalism.

A Complicating Problem in the Smooth Operation of the International Economic System

The authors state that a "complicating problem" in the smooth operation of the international economic system "is the increasing involvement of public authorities, national and regional, in the whole economic process." They feel that as "the partial replacement of Economic Man by the Welfare Society progresses, there must be some collective arena for confronting the consequences of the economic and social policies of national governments...." (*The Crisis of International Cooperation*, p. 42.)

The Collective International Arena

The "collective arena" appears to be the OECD, the IMF, the World Bank, BIS, Economic Summits, etc.

The Need for New International Economic System

The authors exclaim that the "world has outgrown the postwar monetary system and this has produced considerable confusion on the international exchange markets." (*The Crisis of International Cooperation*, p. 46.) They feel "the present

system of flexible exchange rates must be improved, that the nations should be prevented from attaining national self-sufficiency under a new guise." Efforts should be made to "reinforce recent moves toward a managed international currency" – the SDR's. The third world countries should be placated by providing "the less developed countries with the more abundant multilateral finance from the advanced industrial societies which they need." (*The Crisis of International Cooperation*, p. 47.)

Planetary Humanism Offers the Only Common Goals for Societies

The three authors feel that "in the last resort, a 'planetary humanism,' to use Zbigniew Brzezinski's phrase, offers the only common goals for societies as diverse as those of the advanced industrial democracies." (*The Crisis of International Cooperation*, p. 48.)

Instituting Planetary Humanism through Common Management of the World

"In a crowded world," they noted, "the goals of planetary humanism must be sought through the rules, institutions, and contracts of common management." (*The Crisis of International Cooperation*, p. 49.)

A Call for a Permanent Economic Summit Preparatory Committee

In the concluding part of the report on "The Crisis of International Cooperation," authors Duchene, Mushakoji and Owen called for greater trilateral cooperation through collective action. It is in this section that they call for a permanent preparatory committee made up of individuals from the trilateral nations who could work behind the scenes in formalizing joint economic policies and programs to be implemented by the individual nation-states. Joint decisions could then be popularized and publically promoted after they had already been reached at the economic summits. The authors feel that the GATT and OECD are the right places for "formal cooperation."

Creating a Consensus Behind the Scenes

Duchene, Mushakoji and Owen feel the "problem is not to implement a consensus on policies, but to create one." Creating a consensus must be arranged behind the scenes through meetings between finance ministers, treasury and state officials and central bankers in the trilateral nations. That is why the media occasionally makes a short statement about "secret meetings" of finance ministers and others in Paris, etc. (See the *Wall Street Journal*, February 13, 1978.) The three authors note:

"...The formal launching of ideas on an official stage would be a mistake: it would expose them (joint ideas, policies and programs) prematurely to a mode of formal bargaining between governments without laying any of the political bases

for their acceptance. What is most urgently needed is an informal process of collective self-education (an economic summit preparatory group) to generate the joint perspectives from which joint policies can spring. Such a process (economic summits) must be public, creating awareness of the need for international initiatives on international problems." (*The Crisis of International Cooperation*, p. 52.)

The Final Objective Is Collective Action by the Trilateral Nations

Duchene, Mushkoji and Owen state:

"Of course, the final aim must be collective action by governments and eventually it should be possible to formalize consultation among them. It might, for instance, be possible to conceive of an international Advisory Commission of, say, three internationally respected statesmen with sufficient prestige to state the general interest, clarify the political stakes, and pave the way for the domestic acceptance of concession and compromise. But the time for this has not yet come." (*The Crisis of International Cooperation*, p. 52.)

Institutionalization of a Preparatory Group at the London Summit

The formalization or institutionalization of a preparatory group, or consultative body, occurred at the London summit of 1977, four years later.

Global Management Cannot Be Limited to National Governmental Leaders

The authors exclaim that "leadership in such matters [global management or governance] cannot be limited to politicians and bureaucracies whose responsibilities are rooted in historic systems [i.e. constitutional government] which are institutionally separate from one another [separation of executive and legislative branches of government] and who are ill-prepared by their training and loyalties to deal with transnational issues." (*The Crisis of International Cooperation*, p. 53.)

Private Citizens Should Participate in Global Governance

The authors conclude that leadership "cannot be exercised without them, but it need not be generated by them alone." They feel that "private citizens...should point to new opportunities and risks, and suggest new political directions." (p. 53.) Duchene, Mushkoji and Owen announced:

"It is in this spirit that the Trilateral Commission with participants from North America, Japan and the European Community, has been set up to propose jointly considered contributions by their nations to the major international issues the confront mankind. The Trilateral Commission will consider and publish studies which illuminate these issues, and it will publish policy papers which reflect its

members' views on, among other things, money, trade, resources, relations with the less developed countries and with the centrally planned societies."

Trilateralism Is Leading the Way Toward the First Truly Global Political System

The authors next make a momentous statement: "Creation of the Trilateral Commission reflects an awareness that the present moment is of very great importance for the future of mankind. The bipolar leadership system of the cold war is diffusing into what may be the first truly global political system, with many actors playing significant parts at different levels." (*The Crisis of International Cooperation*, p. 53.)

The Foundation for a Global Political System Is Slowly Evolving

The construction of a "global political system" would mean that the nations of the earth would be required to adhere to decisions made by international institutions and bodies. The foundation for a global political system is slowly evolving today. The foundation is in place and the walls are now being constructed.

Moving from a System of Nation-State Governance to Global Governance

In conclusion Duchene, Mushakoji and Owen state: "If...the advanced industrial societies succeed in advancing from previous forms of nation-state cooperation to new forms of collective cooperation, they will have created a framework to deal with the essential problems of the next decades." (*The Crisis of International Cooperation*, p. 54.)

Members of the Trilateral Commission Are Aided by the Atlantic Council in Constructing a New Superstate

From the above quoted material we can see that the nearly 300-member Trilateral Commission is working hard to converge the economics of the western world and to construct a new global political and economic system. Along side the Trilateral Commission is another elitist and prestigious group based in Washington, D.C., the Atlantic Council. Many of its directors are also members of the Trilateral Commission. The Atlantic Council also believes in construction of a global political and economic system. They too have been working forcibly for greater international cooperation among the Trilateral nations and Russia.

A Special Report on Global Governance and Economic Summits

In April of 1977 they published a special report, entitled "Harmonizing Economic Policy: Summit Meetings and Collective Leadership," which dealt exclusively with international cooperation and economic summits. The rapporteur

of the report was C. Tyler Wood, though the report was the joint effort of the Council's Working Group on Economic Policy. Members of this prestigious group included Henry H. Fowler, Partner, Goldman Sachs and Co.; Miriam Camps, Senior Research Fellow, Council on Foreign Relations, Emilio G. Colado, former Executive President of Exxon Corporation; Richard N. Gardner, current U.S. Ambassador to Italy; William McChesney Martin, former chairman, Board of Governors, Federal Reserve Board; Charles W. Robinson, Senior Managing Director, Kuhn Loeb; Frank A. Southard, Jr., former Deputy Managing Director and U.S. Executive Director, International Monetary Fund; Philip H. Trezise, Senior Fellow, Brookings Institution; John W. Tuthill, former Director General, Atlantic Institute for International Affairs; and Marina V.N. Whitman, Professor of Economics, University of Pittsburg.

The London Summit Was an Opportunity to Inaugurate the Process of Harmonization of Economic Policies

It is important to note that this report was prepared in advance of President Carter's first economic summit in London. The report begins as follows: "The economic summit meeting in London on May 7 and 8 (1977)... of [the] key industrialized democracies...provides an opportunity to inaugurate an orderly and far reaching process of harmonizing their economic policies.... The nations represented at that meeting form the core of the international economic system." (*Harmonizing Economic Policy: Summit Meetings and Collective Leadership*, Atlantic Council of the United States, Boulder, Colorado: Westview Press, no date, p. 5.)

The Breakup of the Old Concert of Powers

The report also notes: "New more flexible arrangements are emerging experimentally to take the place of the old Bretton Woods international monetary system which centered on the dollar and its link to gold. The breaking up of the dollar-gold link symbolized the fact that other economic powers in Western Europe and Asia were now assuming a more vigorous role in the shaping of the world economy and the economic weight of the United States in the postwar years was being redressed." (*Harmonizing Economic Policy*, pp. 5-6.)

A Change in Leadership of the Concert of Powers

In other words there was a shifting of power in the world which required a shift in the old concert of powers which existed under Bretton Woods. The U.S. was the leader in this concert. Prior to Bretton Woods it was a European-based concert of powers. Power or governance of the renovated international economic system is now to be shared by the U.S., Western Europe and Japan.

The Need to Adapt Existing International Institutions for Global Governance

The report continues: "The launching of a vigorous effort to harmonize the economic policies of the industrial nations would not of itself entail the creation of new international organizations. What it does require is the adaptation of existing machinery, especially that of the OECD...." (*Harmonizing Economic Policy*, p. 7.)

Collective Leadership Is Unprecedented in Time of Peace

The working group on economic policy noted that: "Collective leadership [of leaders and nations] is historically unprecedented in time of peace. The task of bringing it into being will undoubtedly present many difficulties. It will require working patiently through many instrumentalities." (*Harmonizing Economic Policy*, p. 8.)

Common Management at the International Level

The development of joint policies and programs and leaders of nations is most common in time of war when alliances are made. Wars have a tendency to solidify or centralize decision-making or governance into one head, body or group.

The Traditional Reluctance of Nation-States to Give Up Their National Sovereignty

The difficulty which the report foresees, at least in the U.S., is among the numerous agencies of government who have economic responsibilities and among Congress. It is not easy to persuade congressional or legislative leaders to give up their economic and eventually political sovereignty to an international body or group of decision-makers.

Economic Summits Are Indispensable Elements in Global Management

The report feels that "economic meetings at the summit, exemplified by the recent experimental meetings of the Heads of Government of certain key nations at Rambouillet and Puerto Rico, are indispensable elements in the process of creating 'collective leadership.'" (*Harmonizing Economic Policy*, p. 8.)

Specific Policy Recommendations

The Atlantic Council's Working Group on Economic Policy made a number of specific recommendations on ways in which the industrialized nations were to seek to harmonize or converge their economic policies. This section of the report stated the following:

"We make the following recommendations:

"1. The industrial democracies, led collectively by those whose economies have a major impact on the international economic system, should now seek to harmonize those of their economic policies which have a significant effect on world economic well-being. Specifically:

"They should seek, through systematic consultations and collective economic analyses and appraisals, to make compatible with one another their individual economic goals and targets with respect to employment, growth, price behavior, interest-rate and other monetary conditions, and the balance of international payments.

"They should work together in helping to achieve a smoother functioning of the international monetary system and the provision of private, public and intergovernmental credit essential to the operation of the system.

"They should coordinate their support for increasing the flow of resources for the developing countries, improving the use of development resources, and promoting the transfer of suitable technologies.

"They should develop common policies with respect to proposals for reducing wide fluctuations in prices and flows of primary commodities and for the establishment of adequate grain and other food reserves needed by developing and developed countries alike.

"They should intensify their efforts to liberalize their own trade, coordinate their agricultural policies and programs affecting trade, improve the international trade rules to which they will adhere and strengthen institutional arrangements to settle trade disputes and prevent the resurgence of protectionism.

"They should seek greater congruence in their industrial and environmental policies likely to affect the conditions of international competition.

"They should institute comparable and compatible programs and policies for the conservation of energy and development of new energy resources, and should adopt common rules governing the export of nuclear power equipment and technology in furtherance of the objectives of promoting peaceful uses of nuclear energy while preventing the proliferation of weapons capabilities.

"They should, as market-economy nations, concert their policies in dealing with the growing involvement in the world economic system of the command economies of Eastern Europe and Asia.

"They should seek to harmonize their policies with respect to the responsibilities of host and capital exporting countries concerning direct foreign investments in order to maximize their potential contribution to world economic growth.

"They should, in harmonizing these and other economic policies having significant international effects, act in ways that will encourage and expedite the development and growth of the developing countries' economies.

"2. To bring about harmonization of this far-reaching character requires the personal involvement of the Heads of Government themselves. The forthcoming summit meeting should therefore agree to institute a process of regular consultation by Heads of Government, with adequate provision for continuity, for orderly preparation, and for monitoring the implementation of decision.

"Participants in such meetings should regularly be the Heads of Government of the key industrialized democracies, with other Heads of Government, or others, invited to participate as appropriate. For example, the President of the Commission of the European Community will participate in the May meeting.

"The participants should, as occasion warrants, invite the attendance of the heads of international economic agencies, particularly the OECD, the IMF or the IBRD.

"3. In order to prepare for these meetings, each Head of Government should designate an official responsible to him who could facilitate the internal coordination of policy within this Government and also meet and maintain contact with similarly designated officials from the other participating governments. These designees would arrange for the agenda of subjects to be discussed, identify issues or problems on which harmonization of policy is inadequate, serve as an "early warning system" with respect to potentially critical situations and, if necessary, recommend *ad hoc* Ministerial meetings. This group of key government advisers should seek the assistance and cooperation of the Secretary General of the OECD.

"4. The industrialized democratic nations should, in their efforts to harmonize their economic policies, act whenever possible within the framework of existing international institutions, or adaptations of such institutions, in ways that will improve their functioning, strengthen their staff support and leadership, and further their overall objectives. To these ends:

"Existing international economic organizations, notably the OECD and the IMF, should be used to play a more effective role in:

(a) facilitating harmonization of policies at the senior expert or Ministerial level;

(b) developing collective judgments as to the combined effect on the international system of the separate goals and domestic and international policies of the key nations; and

(c) maintaining continuous review of the effectiveness and compatibility of actions taken in line with agreed policies.

"The committee structure of the OECD should be streamlined and made more flexible.

"The new Council of Ministers provided for by the amendments to the IMF Agreement should be brought into being.

"The trade rules and institutional arrangements of GATT should be reformed.

"5. Within the existing institutional framework greater use should also be made of small, informal meetings of policy-making officials of the key governments, such as the increasingly frequent meetings of Finance Ministers, central bankers and other responsible officials, provided that they are effectively geared into the process as a whole.

"6. Through all channels there should be wider and more expeditious international sharing of information on prospective national economic policies. Each nation should also develop greater disposition, now often lacking, to engage in the genuine solicitation of the views of others as a prior input to national policy-making, in place of the mere notification of policies already decided upon nationally.

"7. The process of harmonization of economic policy, including the development of collective leadership at the top, should be regarded as a flexible, evolutionary one, open to change in the light of experience." (Harmonizing Economic Policy, pp. 10-12.)

A Tremendous Step toward Global Governance

Implementation of the Atlantic Council's recommendations would constitute a tremendous step toward global governance and decision-making at the international level. In order for the above recommendations to occur, each nation would have to begin transferring its economic and political sovereignty to such bodies as the OECD, IMF, World Bank, Summit Preparatory Committee, etc. This process is currently underway.

The Battle Between the Forces of Nationalism and Internationalism

In order to implement these far-reaching goals, the forces of internationalism and interdependence will have to marshal its troops to battle the forces of nationalism.

More Comprehensive and Coordinated Economic Planning Is Ahead

Charles W. Yost summarized the difficulties ahead for the forces of interdependence when he forecast the following: "What will be required of leaders everywhere will be much more bold, comprehensive and coordinated economic planning, national and international, than they have dared apply in the past." (*Christian Science Monitor*, November 19, 1976.)

The Carter Administration Launched Trilateralism with Fervor

The fervor which the Carter Administration felt for international cooperation and global governance was demonstrated in January of 1976. Richard L. Strout noted that the "Carter Administration, acting even before Jimmy Carter [took] the presidential oath, [had] sent Richard E. Cooper, Yale economist and designated Under Secretary of State for Economic Affairs, to Tokyo to coordinate policies." (*Christian Science Monitor*, January 18, 1977.)

A Well-Prepared Administration

As noted earlier, perhaps no administration in the last century, with the exception of President Roosevelt, has been so well prepared with a concrete set of goals and foreign policy objectives as the Carter trilateral team.

The Trilateral Attitude Toward International Cooperation

A confidential draft declaration of the Downing Street Summit in London summarized the trilateral attitude toward international cooperation as follows:

"With every year that passes, it becomes clearer that the world economy has to be seen and managed as a whole, an enterprise which will involve cooperation not only between national governments but in the appropriate international organizations...; what we have tried to do is to ensure that our national decisions are coordinated and to ease the way to international action in all the bodies where decisions are required." (Manuscript Copy, p. 1.)

A Call for a Special Representative to Handle Economic Summits

The Atlantic Council report stated that "each Head of Government should designate an official responsible to him who could facilitate the internal coordination of policy...." In 1977, President Carter designated Henry D. Owen as Special Representative of the President for Economic Summits and U.S. Ambassador at Large. Other recommendations of the Atlantic Council's working group were also been implemented by the Carter Administration. At the 1977 London Summit it was decided to establish a "Preparatory Group" made up of carefully selected individuals from the U.S., Western Europe and Japan who would "arrange for the agenda of subjects to be discussed, identify issues or problems on

which harmonization of policy is inadequate serve as an 'early warning system' with respect to potentially critical situations and, if necessary, recommend ad hoc Ministerial meetings." That group has been referred to as the "Owen Preparatory Group."

A List of Members of the Tokyo Economic Summit Preparatory Group

The list of participants of the Owen Preparatory Group for the Tokyo Summit included:

Canada

Mr. Robert Johnstone, Deputy Under-Secretary, Department of External Affairs; Mr. Robert K. Joyce, Assistant Deputy Minister, Department of Finance; Mr. Jacques S. Roy, Assistant Secretary to the Cabinet, Privy Council Office;

France

Mr. Bernard Clappier, Governor of the Banque de France; Mr. Henri Froment-Meurice, Director General for the Economic and Financial Affairs, Ministry of Foreign Affairs; Mr. Jean-Yves Haberer, Director General of the Treasury, Ministry of Economy;

Germany

Dr. Horst Schulmann, Head of Department for Economic, Fiscal and Social Policy of the Office of the Federal Chancellor; Dr. Hans-Werner Lautenscholager, Head of Department for External Economic Policy, Foreign Office; Dr. Waldeman Mueller-Thuns, Deputy Head of Department for External Economic Policy and Development Assistance of the Federal Ministry of Economics

Italy

Mr. Umberto La Rocca, Permanent Representative of Italy to the United Nations; Mr. Renato Ruggiero, Minister Plenipotentiary, Economic Affairs Bureau, Ministry of Foreign Affairs; Dr. Silvano Palumbo, Counsellor to the Minister of the Treasury;

United Kingdom

Sir John Hunt, Secretary of the Cabinet; Sir Michael Palliser, Permanent Under-Secretary of State and Head of the Diplomatic Service; Mr. K. E. Couzens, Second Permanent Secretary of the Treasury;

United States

Mr. Henry Owen, Special Representative of the President for Economic Summits; Mr. Richard N. Cooper, Under-Secretary for Economic Affairs, Department of State; Mr. Robert D. Hormats, Deputy Assistant Secretary for Economic and Business Affairs, Department of State;

EC Commission

Mr. Crispin Tickell, Chief of Cabinet of the President of the Commission of the European Communities;

Japan

Mr. Hiromichi Miyasaki, Deputy Minister for Foreign Affairs; Mr. Takehiro Sagami, Vice Minister of Finance for International Affairs; *Mr. Isamu Miyazaki, Director General of the Coordination Bureau, Economic Planning Agency; *Mr. Shiro Miyamoto, Director General of the International Trade Policy Bureau, Ministry of International Trade and Industry. (Official document, Office of Henry Owen, Old Executive Office Bldg., Washington, D.C., no date. Reprinted by permission.) *to attend alternately

Heads of State at the Tokyo Summit

The list of participants from the individual governments for the Tokyo Summit on June 28-29, 1979, includes the following:

Canada

Joe Clark, P.C., M.P., Prime Minister; Flora MacDonald, P.C., M.P., Secretary of State for External Affairs; John Crosbie, P.C., M.P., Minister of Finance;

France

Valery Giscard d'Estaing, President; Jean Francois-Poncet, Minister of Foreign Affairs; Rene Monory, Minister of Economy; Andre Giraud, Minister of Industry;

Germany

Helmut Schmidt, Federal Chancellor; Hans-Dietrich Genscher, Vice Chancellor and Federal Minister for Foreign Affairs; Hans Matthoefer, Minister of Finance; Dr. Otto Graf Lambsdorff, Federal Minister of Economics;

Italy

Guilio Andreotti, President of the Council of Ministers; Arnaldo Forlani, Minister of Foreign Affairs; Filippo M. Pandolifi, Minister of the Treasury;

Japan

Masayoshi Ohira, Prime Minister; Sunao Sonoda, Minister for Foreign Affairs; Ippei Kaneko, Minister of Finance; Masumi Esaki, Minister of International Trade and Industry;

United Kingdom

Margaret Thatcher, M.P., Prime Minister; Lord Carrington, Secretary of State for Foreign and Commonwealth Affairs; Sir Geoffrey Howe, M.P., Chancellor of the Exchequer;

United States

Jimm Carter, President; Cyrus Vance, Secretary of State; W. Michael Blumenthal, Secretary of the Treasury; James R. Schlesinger, Secretary of Energy;

Commission of the European Community

Roy Jenkins (*Ibid.*)

Private Policies and Programs

Joint decisions, policies and programs were worked out privately before the economic summits by the Owen Preparatory Committee. The leaders of the industrial nations were then called together at the summits, such as in Tokyo, to announce the joint decisions and programs which they desire to have implemented by each nation.

An Interview with Jim Cochran

Jim Cochran, a member of the National Security Council Staff assigned to Henry D. Owen's office, stated in an interview, which follows, that when a summit meeting is held there are really two summits being conducted simultaneously. One meeting is between the official heads of state, such as President Carter, etc. The other meeting is between the Finance Ministers, Special Representatives for Economic Summits, Treasury and State Officials, etc. This latter meeting, Mr. Cochran stated, is the real summit meeting. The other meeting is held for the press to stimulate public acceptance of the joint decisions and programs worked out previously and finalized at the summit by the Preparatory Group. The interview is as followed:

Mr. Chadwick: How many people work on the economic summits?

Mr. Cochran: Since the summit is a once-a-year event, the staff, both in this building, the State Department, and in other places such as the Department of Energy, for this year's summit, has a tendency to be seasonal. As the summit approaches, more and more people find themselves in summit-related work.

Ambassador Owen is confirmed by the Senate and is responsible for economic summitry. He sits in this building. He serves as the President's personal representative for the summit process. Within this area the staff structure is rather informal. We have in this office a cluster of three or four people who work on economics. We are considered an economics cluster within the National Security Council. We assist Henry Owen with the process of summit planning and follow up. It is very difficult.

It is a difficult system to describe. It is a good system because sources are made available when they are needed. There is no large prominent, intra-structure that exists year in and year out.

Selection of Topics at Economic Summits

Mr. Chadwick: Who selects the topics that are discussed at the summit meetings?

Mr. Cochran: Selection of topics is a multilateral process. The discussion of summit agenda emerges with discussions. There is a preparatory process within each government, the United States government, the government of Japan, the French government, as well as among other governments. There are many preparatory meetings on a multinational basis which precede the summit. There are also follow-up meetings. The follow-up meetings are not open to the public.

The Summit Process

Think of the summit process working in the following way. At the economic summit the head of government is flanked by his finance minister and foreign minister. In the case of the United States, President Carter, in Tokyo, was flanked by his Secretary of State, Cyrus Vance, and his Secretary of the Treasury, Secretary Blumenthal. This process is repeated with other governments. The actual economic summit is a meeting of the heads of government and foreign ministers.

At the same time there was a parallel meeting of Henry Owen and his counterparts who represented the heads of government. This meeting included experts in international economics, such as the foreign ministry's finance ministers, etc. In the case of the United States the Treasury Department was represented by Under Secretary Anthony Solomon. Richard Cooper, Under Secretary of State for Economic Affairs represented the State Department. So you have two meetings at the economic summit occurring simultaneously. This trio from each country is the on-going, planning core for the summit process.

The Economic Summit Team

Mr. Chadwick: At one meeting you have the President, Secretary of State and Secretary of Treasury. In the other meeting you have Ambassador Owen, the

President's personal representative for economic summitry and Anthony M. Solomon, Under Secretary of the Treasury for Monetary Affairs and Richard N. Cooper, Under Secretary of State for Economic Affairs.

Mr. Cochran: We have a parallel effort. There is a continuous process of feedback between the two groups on a session-to-session basis.

Mr. Chadwick: Are they discussing the same agenda?

Mr. Cochran: Typically, yes. They are moving in a parallel fashion, although they don't necessarily have to be in a perfect harmony. For example, the heads of government could be discussing one agenda item and the finance ministers could be discussing another one.

Quite often the deputies will have met several times before the economic summit and will be there really to thrash out issues. Each country has one person designated as the person responsible for economic summitry.

Economic Summitry with Regards to Constitutional Questions

The joint exercise of economic and political sovereignty with other nations by the executive branch of the U.S. government raises a number of constitutional questions. Article I, Section 1, of the U.S. Constitution states: "All legislative powers herein granted shall be vested in a Congress of the United States, which shall consist of a Senate and House of Representatives." Article I, Section 8, Clause 3 of the U. S. Constitution states that Congress shall have power to "regulate commerce with foreign Nations, and among the several states..." Congress is given exclusive authority in these areas, however, the process of economic summitry appears to bypass these restrictive clauses. Article II, Section 3, gives the President power "to give to the Congress information of the State of Union, and recommend to their considerations such measures as he shall judge necessary and expedient" and requires him to "take care that the laws be faithfully executed."

At the economic summits the American people are committed to numerous joint programs and policies in which U.S. representative stake no direct part. Agreements entered into at the summits resemble a treaty. It would appear that the process of economic summitry is also a violation of Article II, Section 2, Clause 2, of the U.S. Constitution. This clause states that the President "shall have power, by and with the advice and consent of the Senate, to make treaties, provided two-thirds of the Senators present concur...."

The Senate is given concurrent jurisdiction with the president in the treaty process. However, International Agreements made by the President and his close advisors at the economic summits have not been submitted to the Senate for their approval.

The Evolutionary Movement of Individual Nations into Global Governance

At each of the successive economic summits beginning in Puerto Rico in 1975 and continuing today, there has been a consistent effort to intensify efforts to converge the economies of the West. Each of the summit declarations demonstrate the evolutionary movement of individual nations into a global system of governance. With each summit greater measures are being taken to harmonize economic policies. With each summit, international institutions are being strengthened to facilitate the new demand of "decision-making in an interdependent world." With each summit more and more decisions which affect domestic policy are being made at the international level. The end of the nation-state and national sovereignty is being heralded by influential members of the Trilateral Commission the Council on Foreign Relations, the Atlantic Council, Brookings Institution, etc.

Decision-Making in an Interdependent World

In the summer of 1975 the Atlantic Council stated:

"The traditional pattern of diplomacy conducted bilaterally between sovereigns by Ambassadors and Foreign Offices is as obsolescent as the sailing vessel. In the 20th Century it is being progressively replaced by multilateral efforts to harmonize policy and action on major matters of common human or national concern.

The Sovereign Nation-State Has Lost the Ability to Achieve Its National Goals

"The government of a sovereign nation-state has the authority to legislate within its own frontiers but it has lost the ability to achieve its national goals and the aspirations of its peoples solely by its own isolated efforts.

Adapting the Nation-State to the Twentieth Century

"It is hardly a coincidence that the nation-state replaced feudalism shortly after the introduction of gunpowder into the West. The world is currently groping for means of adapting the nation-state to the requirements of the nuclear and space age on a crowded, urbanized and industrialized planet, shrunken in size by communication and transportation, *and* in ferment from the scientific, technological and information explosions of recent years.

Goals Can Only Be Achieved by Common Management at the Global Level

"Yet most of us were taught in our early formative years that the nation-state was the highest form of political organization. 'National sovereignty' is a powerful political slogan and it takes time for governments and peoples to realize that its goals can be achieved only by its exercise jointly with that of other nations.

The Development of Effective Means for the Joint Exercise of Sovereignty by Key Nations

"The development of effective means for the joint exercise of sovereignty by key nations with respect to common problems is a basic need of today's and tomorrow's world...." (Decision-Making in an Interdependent World," *The Atlantic Community Quarterly*, Summer 1975, Vol. 13, No. 2, p. 137. See also "Planned Diplomacy," an Atlantic Council publication.)

We Are Entering a New Era

We are indeed entering a new era – the era of global governance, of trilateralism, of decision-making at the international level; the era of the decline of the nation-state, of the decline of national sovereignty; the era of confrontation between the forces of nationalism and internationalism; the era of interdependence; the era of a new international economic and political system – a new trilateral superstate.

Part VI The Central Engines of Global Governance

12. Organization for Economic Cooperation and Development – Central Economic Planning at the Global Level

Part I – Introduction

In 1968 Richard W. Cooper, writing in *The Economics of Interdependence: Economic Policy in the Atlantic Community*, stated:

"During the past decade there has been a strong trend toward economic interdependence among the industrial countries. This growing interdependence makes the successful pursuit of national economic objectives much more difficult. Broadly speaking, increasing interdependence complicates the successful pursuit of national economic objectives in three ways. First, it increases the number and magnitude of the disturbances to which each country's balance of payments is subjected, and this in turn diverts policy attention and instruments of policy to the restoration of external balance. Second, it slows down the process by which national authorities, each acting on its own, are able to reach domestic objectives. Third, the response to greater integration can involve the community of nations in counteracting motions which leave all countries worse off than they need be. These difficulties are in turn complicated by the fact that the objective of greater economic integration involves international agreements which reduce the number of policy instruments available to national authorities for pursuit of their economic objectives. (New York, McGraw-Hall Book Co., 1968, p.148.)

Management of the International System

In order to manage the state of interdependence created by the international financial, economic and trade systems, the elite of the world have designed and built a number of international institutions. One such institution is the Organization for Economic Cooperation and Development, commonly referred to as the OECD. It is located in Paris. The OECD is to serve as the institutional mechanism for joint supervision and management of the economies of the advanced countries of the world. In other words, the OECD is to ensure the continued integration of the Western world through the formation of joint economic objectives and policies.

Central Economic Planning on a Global Basis

While we have witnessed the process of centralized economic planning and control at the nation-state level, never before have we had central economic planning on a global basis. A recent pamphlet outlines eight aspects of the OECD's work:

"a high-level forum where government officials consult on the key economic policy issues.

"detailed economic analysis and short-term forecasts for economic policy-makers.

"reviews of the economic performance and policies of each Member country.

"high-level cooperation on the main issues of balance of payments and international monetary policy.

"organization of financial aid to Member countries encountering exceptionally serious economic difficulties.

"analysis and consultations on policies for achieving adequate price stability and full employment in the face of increased difficulties, notably in the energy field.

"investigations of policies conducive to sustainable medium-term economic growth and of longer run structural and resource allocation problems.

"publication of internationally standardized economic statistics. (Official document, "OECD at a Glance", OECD, 2 rue Andre Pascal, 75775 Paris Codex 16, no date, p. 3.)

Part II – Membership in the OECD

Membership in the OECD includes the following nations:

Membership

Australia	Luxembourg
Austria`	Netherlands
Belgium	New Zealand
Canada	Norway
Denmark	Portugal
Finland	Spain
France	Sweden
Germany	Switzerland

Greece	Turkey
Iceland	United Kingdom
Ireland	United States
Italy	Japan

Part III – Goals of the OECD

The OECD is one of the largest and most important international institutions in the world. Its goals include:

Development

"encouraging a coherent approach to development problems in the OECD as part of the overall national policy of every Member country

"promoting a positive approach to the dialogue between developed and developing countries

"increasing the volume and effectiveness of aid to developing countries

"promoting imports of goods from the developing countries

Trade

"maintaining and improving the open and multilateral trading system by preventing protectionism and further liberalizing international trade

"monitoring and improving the functioning of national and international capital markets

"helping to increase international investment flows

"working for equitable treatment for enterprises under foreign control

"promoting compliance of multinational corporations with agreed guidelines of behavior

"facilitating cooperation between national tax administrations

("OECD at a Glance," pp. 508.)

Part IV – Decision-Making at the OECD

The OECD is designed for global management of national policies and decisions. Control over the development, implementation, operation and supervision of national economic policy is being taken from the free markets in democratic countries and from central governments in socialistic countries and turned over to an international rule-making or decision-making institution. In 1968, Ambassador Roger Ockrent participated in a conference on "Decision-Making in International Institutions," sponsored by the Graduate School of Business at the University of Chicago. His paper was entitled, "Decision-Making in the OECD," Chapter I of Ambassador Ockrent's paper is entitled, "The OECD as a Management System."

The Influence and Power of the OECD

In this section, Ockrent outlines the influence and power which the OECD has gained over the member nations which adhere to OECD policies. He stated:

"It is important to start by placing the O.E.C.D. in its historical perspective, before going on to specify the fields in which it is active – in other words to define the management systems to which it belongs – and to determine the aims of its action in these different fields.

Section 1 – History

"It is common knowledge the O.E.C.D. is the successor of the O.E.E.C. (Organization for European Economic Co-operation), an institution created in 1948 between 17 European countries (1) on the initiative of the United States, in order to give the greatest effect to American aid to European reconstruction (the Marshall Plan) by means of recovery programmes formulated by common agreement between Member countries and implemented by a judicious distribution of aid.

Restoration of the International Economic Order

"From 1948 to 1958 the main activity of the O.E.E.C. was the restoration in Europe of an international economic order founded on the laws of the market. Formal decisions necessarily played an important part in this action, directed as it was towards modifications in the legal structure of international trade and payments, (liberalization of trade by the elimination of quantitative restrictions; the operation of the European Payments Union).

"(1) Austria, Belgium, Denmark, France, Greece, Iceland, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Sweden, Switzerland, Turkey, United Kingdom, Occupation zones of Germany – Spain joined the O.E.E.C. in 1959.

The Management System of the World Economy

"From 1958 onwards the combination of a number of circumstances raised the problem of the future of the O.E.E.C.:

- the restoration of convertibility had the effect of bringing the European countries back into the 'management system' of the world economy and under the jurisdiction of the world-wide institutions especially in the field of trade (G.A.T.T.) and currency (I.M.F.);

- the political trend in Europe was reflected in the determination to pursue the integration of national economies on a more limited geographic plane (E.E.E.-E.F.T.A.);

- the economic recovery of Europe raised in new terms the question of economic co-operation between the United States and Europe.

The Development of the OECD

"The O.E.C.D. (Organization for Economic Co-operation and Development) arose out of these new circumstances. It has a membership today of 21 [24 today] countries. Its Constituent Convention, which came into force in 1961, assigns it the following aims:

- to achieve economic growth in Member countries while maintaining financial stability;

- to contribute to the expansion of world trade on a multilateral non-discriminatory basis;

- to contribute to the economic expansion of countries in the process of economic development.

"The pursuit of these aims, unlike those of the O.E.E.C., does not on the face of it involve direct action to influence the international legal framework of trade and finance although such action is in no way ruled out and does in fact exist in certain limited sectors.

"(1) The 18 O.E.E.C. Member countries, Canada and the United States and since 1964, Japan.

"In practice, and with the inclusion of certain developing countries with traditional ties with Europe, the Organization has become a forum for economic consultation among the industrialized countries with a market economy.

Section 2 – The Fields of Competence of the OECD

"If we adopt the concept of a management system, as defined in the context of this Conference, we must admit that it is by no means easy to identify the fields of competence of the O.E.C.D. with a given 'management system' or even with a number of systems. In practice, the limits of its competence are wide and imprecise both geographically and functionally.

The OECD Is a Global Organization

"Geographically. Although its Member countries are few in number, the O.E.C.D. cannot be regarded as a regional organization;

" – its Member countries do not belong to a self-contained region;

" – a number of non-Member countries take part in certain activities (Finland, Australia, New Zealand, Yugoslavia, Israel);

" – the contribution of Member countries to the economic development of Non-Member countries is one of its main concerns;

" – its economic weight is preponderant in the world economy.

Its geographical composition seems rather to be defined by a community of interests and traditions affecting the problems and methods of administering the economy.

"In certain cases where this community of interest is not shared by all Member countries, the procedures of the Organization recognize this state of affairs by confining deliberations to the countries concerned.

"Examples: – The Development Assistance Committee consists of aid-giving countries only.

– The European Monetary Agreement is limited to European countries.

Specialization at the OECD

"Functionally. As indicated by its very name the paramount field of competence of the O.E.C.D. is economic; economic facts and economic policies. It in no way follows that its competence is clearly and rigidly circumscribed; furthermore, as we shall see its general economic competence is geared down by means of specialization.

The Power of the O.E.C.D. to Influence Nation-State Policy

"It is common knowledge that the economic sphere has no precise unalterable frontiers. The more perfect scientific understanding of economic questions and the growing intervention of the authorities have greatly widened our knowledge and increased our power to influence the phenomena which determine the standard of living in a given society.

"Example:

– Science and education are fields whose economic incidences are much better recognized today than they were ten years ago.

The Management Systems at the O.E.C.D.

"It will no doubt be conceded that management systems are infinitely divisible. This is certainly the case with the economy and consequently with the competences of the O.E.C.D. Descending the pyramid of competence, we find a first division between activities relating to the general economy or general economic policy and those which make a sectoral breakdown of the economy (agriculture, industry, finance, development assistance, etc.). General economic policy, in its turn, can be subdivided into cyclical policy and medium or long-term structural programming. Similarly, for example, development assistance policy includes a policy of financial aid and a policy of technical assistance and so on. It is, moreover, hardly necessary for the purposes of our analysis to make an inventory of all the sectors of competence of the Organization.

The Role of the OECD as a Legislator

"At this stage, two comments should be made:

"(a) at each level of specialization, the activity of the Organization is integrated in a set of national and international rules, customs and policies and makes its contribution thereto. There is therefore a more or less specialized management system at each level. The role played by the Organization is in no way uniform in all sectors. Important in some, negligible in others, this role may be that of a legislator in certain fields, a simple meeting place in others and a pressure group in others again;

"(b) this pyramid of competences of the Organization is matched, as we shall see later, by a pyramid of bodies (committees, expert groups, working parties, etc.). This hierarchical structure makes it possible to reconcile:

– the need for the services of highly specialized officials in certain particular disciplines;

- and the preservation of the unity of decision at policy level (i.e. the Council),.

Section 3 – The Aims of OECD Action

"Regardless of the fields of competence within which the Organization acts and regardless of its legal forms, such action may have two aims:

- to regulate certain international or even national transactions where such international regulation is in the common interest;
- to influence national authorities in the conduct of their policies.

A Considerable Extension of the OECD's Ability to Influence National Governments

"The transition from the O.E.E.C. to the O.E.C.D. has been reflected in a certain lessening of the regulative activity of the Organization and a considerable extension in its role of 'influencing' national governments. This trend should be set in the context of the growing inter-penetration of national economies and the complexity of the problems which arise in connection with the administration of the economy.

"(a) The O.E.C.D. participates in international law-and-policy-making ('regulating activity')

A Trustee of the Charter Governing International Transactions Between Countries

"The O.E.C.D. retains an activity of the regulative type in three different spheres.

"1. In certain limited sectors the Organization is the trustee of the Charter governing international transactions between Member countries

Example: – Codes of Liberalization: International transactions in services and capital movements are subject to certain rules designed to avoid the return to general exchange control;

– European Monetary Agreement: There are various provisions governing the reciprocal exchange guarantee and the variations from parity of authorized exchange rates.

"2. The Organization encourages international standardization in cases where greater uniformity may facilitate trade or industrial development or ensure the respect for certain rules of equity:

"Examples: – varietal certification of seeds, agricultural tractor tests;

– buffer stocks of petroleum products.

"3. The Organization exercises certain operational activities:

"(b) The O.E.C.D. influences the formulation of national policies and decisions

The Essential Role of the OECD

"It is becoming increasingly apparent that the essential role of the O.E.C.D. is, through information, consultation and concerted action, to bring home to national governments the international dimensions of their policies and decisions.

A Wide Range of Instruments of Influence

"Underlying this general formulation there is a very wide spectrum of instruments of influence ranging from the simple exchange of information to formal negotiation.

"Examples: – discussions on regional development policies take the form of an exchange of information enabling governments to profit in solving their own problems from the experience of their neighbors;

– discussions of anti-cyclical policy are designed to influence the decisions of each country along the lines deemed most conformable to the interests of the Community as a whole. The same is true of general development assistance policies;

The Authority and Influence of the OECD

"The Common characteristic of all these instruments of influence, which distinguishes them from the regulative processes, is that O.E.C.D. action depends for its ultimate translation into economic fact on the interposition of specific behavior on the part of national governments (formulation of policy, introduction of measures, abstention from certain measures, etc.). The extent to which O.E.C.D. action is decisive in determining such behavior obviously varies and this is one of the factors affecting the authority and influence of the Organization's work.

Assisting Other International Organizations

"The behavior which the O.E.C.D. seeks to influence may be individual or collective, as for example in preparing the work of other international organizations. The community of interests among Member countries of the O.E.C.D. normally induces them to use the Organization as a forum for consultation or the prior co-ordination of the attitudes to be taken or positions to be defended in international economic institutions with a wider geographic composition.

Examples: – The preparation by the Trade Committee of the proposals submitted to UNCTAD by the industrialized countries in the matter of special tariff treatment for developing countries.

– Although it has not been thought appropriate to use the O.E.C.D. as an instrument for prior consultation between the industrialized countries on questions relating to GATT and the IMF, this attitude is not necessarily irreversible.

The Role of Influencing National Governments

"It should be emphasized that there is no necessary relation between the legal form of O.E.C.D. action and the question whether such action is taken under the regulative role of the Organization or its role of influencing national governments. While the regulative competence of the Organization is normally exercised through acts endowed with a certain legal force (Decisions, Recommendations, etc.), it in no way follows that these forms are not equally appropriate to action by the Organization in its role of influence.

"Example: – Decision of the Council in December 1961 setting the growth target for 1960 to 1970 of an increase of 50 per cent in the real gross national product for all the Member countries combined.

National Sovereignties Are Being Automatically Eroded

"The preponderance of the Organization's role as a government adviser rather than an international legislature is essentially explained by the fact that its field of activity places it at the confluence of national and international responsibilities. Economic interpenetration, which is mainly felt in highly industrialized economies with frontiers open to trade and with convertible currencies, has the effect of conferring an international dimension on all national economic policies even when they relate to questions which are in principle purely internal. By the nature of things, national sovereignties are being automatically eroded since the effects of economic decisions, both internal and external, are no longer halted by the geographic frontiers of national sovereignty.

The Role of the OECD

"The role of the O.E.C.D. is not to rob national governments of their proper responsibilities, but rather to make them aware of the international implications of their action or inaction in the economic sphere in general and in each economic sector in particular.

"This ineluctable erosion of national sovereignties is moreover accompanied by nationalistic political reactions, which must no doubt be regarded as delaying offshoots of the phenomenon. They tend in effect to check the movement but no doubt cannot halt it."

Ambassador Roger Ockrent, "Decision-Making in the O.E.C.D." Conference on Decision-Making in International Institutions, June 8-9, 1968. University of Chicago Graduate School of Business, May 17, 1968, Paris, Manuscript copy, pp. 2-10)

Part V – OECD Policy Decisions

Chapter III of Ockrent's article is entitled, "The Forms in Which the O.E.C.D. Brings Its Influence to Bear." In this section the Ambassador details the means whereby OECD policy decisions are adhered to by member nations:

Section 1 – The Acts of the OECD

"Within the limits of this study it is hardly possible to make a thorough legal analysis of the different types of Act of the Organization. It must be enough to indicate briefly the various forms of Acts which result from the work of the Organization and the functions of each of them.

"(1) Decision

"Rule 19 of the Rules of Procedure distinguishes four categories of Decision, according to their effect:

"(i) Decisions binding on the members, which the latter shall implement after they have complied with the requirements of their appropriate constitutional procedures.

(ii) Decisions approving agreements with its members, non-member States and international organizations.

(iii) Decisions on internal matters concerning the work of the Organization which shall be known as Resolutions.

(iv) Decisions providing for communications to non-member States or to Organizations.

The Formation of Rules Which Are Binding on Member Countries

"It is under the first of these categories that the Organization has power to lay down normative rules or to make operational arrangements which are binding on Member countries.

"Examples: – Council Decisions are introducing the Code for the Liberalization of Current Invisible Transactions and Code for the Liberalization of Capital Movements.

– Council Decision granting Turkey a credit out of the European Fund.

Defining Policies to be Followed by Nation-States

"Decisions in the first category are in no way limited to the fields in which the Organization has regulative competence. The Organization also occasionally acts by Decision to give a certain impetus to the action of national governments. While in legal form the Decision remains imperative, its content is normally limited to a definition of the broad outlines of the policies to be followed without specifying the concrete measures by which these policies should be implemented. In these circumstances, the choice of the Decision as the appropriate type of Act depends less on the binding character of the Act than on the desire to express the collective will in solemn form.

"Example: – Council Decision setting a growth target of 50 per cent of gross national product in real terms for the period 1960 to 1970.

"(2) Recommendations

Recommendations of the OECD

"Rule 19(b) of the Rules of Procedure specifies that "Recommendations of the Organization...shall be submitted to the Members for consideration in order that they may, if they consider it opportune, provide for their implementation."

"Although, by definition, Recommendations have no binding legal force, the established usage of the Organization is to adopt only Recommendations whose provisions are generally acceptable by all member States. It follows from this that the Recommendations of the Organization are not very numerous, but that their de facto authority is little less than that of Decisions. The use of a Recommendation in preference to a Decision is normally explained by the fact that the Recommendation makes it possible to address a more precise invitation to member States while expressly safeguarding the reserved field of national sovereignties.

"Examples: – Council Recommendation on Active Manpower Policy

– Recommendation of the Development Assistance Committee on the conditions and financial terms of aid. (This Committee, which consists of the 15 Member countries interested in the co-ordination of development assistance is authorized by special delegation to make its own Recommendations whose legal force is equivalent to Council Recommendations). (Ockrent, pp. 15-17.)

Part VI – Managing Economic Interdependence

Management of the economies of the advanced industrialized societies in today's world is indeed a tremendous undertaking. Nevertheless, if the global economic, financial and trading system devised by the elite is to maintain its present position in the world there must be regulatory and planning agencies on an

international basis. Monopolies cannot exist without the assistance of governmental regulatory agencies. The OECD is a global regulatory agency which is totally responsible to those who created it – the international bankers, investment bankers and corporate directors.

The De-Evaluation of the Nation-State into an Administrative Unit

The OECD is in the process of maintaining, protecting and enlarging the monopolistic and corporate socialistic plans of the elite in the areas of trade, finance and economic policy. It is designed to destroy free market economies and replace them with command systems. In other words, the nation-state is to be de-evaluated to an administrative unit. Central economic planning is to replace the free economy. The OECD will design the rules and responsive individuals at the nation-state level will implement them. National political and economic sovereignty is being slowly eroded and transferred to such global bodies as the OECD.

The Core Global Institutions of the New Imperial System

The power of the OECD, as well as the other international bodies, has been gradually increasing since their inception. The elite are well aware that forces are at work in the world – domestic and external – that complicate their efforts to manage the world as a single economic unit. Domestic interest groups, pleas from the Third and Fourth World countries, structural inadequacies in elite ideologies, etc., are threatening the entire management system devised by the power structure in the world. In order to cope with this wide array of national and international problems the elite have decided it is necessary to strengthen the central institutions of their global command system – the BIS, IMF, IBRD, OECD and WTO. These five global institutions form the core or center of the New Imperial System designed to rule the world.

Strengthening the Role of the OECD

One of the key academic designers of the "new Imperial System" is Miriam Camps, former Senior Research Fellow at the Council on Foreign Relations. In 1975, Camps produced a lengthy treatise outlining the steps which should be taken to strengthen the OECD. It was entitled, "First World Relationships: the Role of the OECD."

The report is the "definitive" study on the role which the elite would like the OECD to play. At the beginning of her article she sets the stage by pointing out the need for the OECD to manage economic interdependence. She stated:

"...There have been two main reasons, or two main groups of reasons, for a resurgence of interest in what has come to be called 'the advanced-country relationship'.

Interlinkage of the Economies of the Developed Countries

"The first in point of time although not in terms of public attention was the growing awareness of how interlinked the economies of the highly developed, market-economy countries were becoming, how vulnerable each was to developments in the others, and how central the relationship among this group of countries was to the health of the global economic system. The shift in economic power – the decline in the preponderance of the U.S. and the growth of new centers of economic power in Japan and Europe – began in the late 'fifties and early 'sixties, but many of the implications of the shift only became widely appreciated a decade later with the break-down in much of the Bretton Woods system (in large measure a consequence of the shift in power).

Vulnerability of Developed Countries

"The second main reason for the new attention being given to the advanced-country relationship in general and to the OECD in particular has come not from the recognition of the vulnerability of the members of the group to one another but from their vulnerability to the actions of third countries and, in particular, to the actions of the OPEC (the Organization of Petroleum Exporting Countries)....

Management of Economic Interdependence

"The actions of the oil-exporting countries in embargoing exports during the Yom Kippur war and in steeply pushing up prices, the consequential massive shift in real resources, and the continuing uncertainty about how the enormous credits being piled up by the oil producers would be used, by posing acute problems for most of the OECD countries have also, of course, strengthened the first set of reasons for renewed interest in the OECD – underlining the need for more consultation about, and probably more "management" of, the advanced countries own economic interdependence...." (Miriam Camps, *"First World" Relationships: the Role of the OECD*, Paris: The Atlantic Institute for International Affairs, & New York: Council on Foreign Relations, Inc. Originally Published as Atlantic Paper No. 25, December 1975)

Reshaping OECD as an Institutional Expression for the Trilateral Nations

Camps feels that: "If the countries of the European Community were set on a clearly agreed, well-charted course to an economic and monetary union a case could be made for 'trilateralism' and for reshaping the OECD as the institutional expression of a process of inter-bloc management between the three major centers of economic power – the U.S., the European Community and Japan." (Ibid.)

Part VII – Global Institutional Arrangements Among the Advanced Nations

Economic policies of the advanced industrialized nations are being coordinated by the OECD in order to ensure the evolution of a more efficient global economic system. In a section entitled 'Roles and Functions,' Camps argues that there are three main reasons for international institutional arrangements among the advanced countries:

"The reasons for various kinds of institutional arrangements among the advanced, industrialized, market-economy countries – or the tasks requiring collective action – can be grouped under three broad headings: (1) those that derive essentially from the high degree of interaction among the economies of these countries and the consequent inability of individual national governments to attain desired domestic objectives without close co-operation with other governments; (2) those that derive essentially from the desire of this group of countries to order its relationship or to co-ordinate its strategy *vis-a-vis* other groups of countries in order to increase bargaining power or to make more effective some aspect of the inter-group relationship; and (3) those that derive essentially from the need to give more coherence and greater effectiveness to the international system generally....

How Far-Reaching Should Monetary and Economic Policy Be?

"The questions for the future are not whether the advanced countries will need to improve their arrangements for consultation and co-operation on monetary and general economic policy but, rather, how far down into matters such as interest-rate policy and the appropriate magnitudes for budgetary deficits or surpluses, which traditionally have been regarded primarily as tools for managing the domestic economy, it will be necessary – and politically feasible – for the process of intergovernmental consultation to reach; what countries should be involved in the process; what operational content should be given to 'consultations', i.e. whether the process should be pushed beyond an exchange of views to more formal acts of co-ordination; and how whatever is done among some group of advanced countries should be related to action the European Community level, on the one hand, and to action on the broader global level, on the other.... (Ibid.)

Part VIII – The Role of the IMF

It is evident that the OECD is reaching further and further into the internal policies of the nation-state as it assumes more and more power. The term 'intergovernmental consultation,' simply means the joint determination of policy among elite government leaders. National and political sovereignty do not enter the discussion because the elite are bent on constructing a truly global economic system where the nation-state is a mere administrative unit of global institutions such as the OECD. The OECD is the main international institution formulating policy in the global economic system.

The IMF is to Become the Focal Point

Miriam Camps feels that the IMF will become the focal point for management of the international monetary or financial system. She stated that:

"A few years ago it would have seemed reasonable to predict that a reformed and strengthened IMF would be the focal point for the management of the international monetary system and that, within such a system, the countries of the European Community could be expected progressively to act as a unit. Had there been substantial progress toward economic and monetary union at the European level and a codification of new rules at the international level – rules which were expected, *inter alia*, to enable exchange rates to take more of the burden of adjustment under close IMF surveillance – and, of course, no dramatic development comparable to the steep increase in oil prices, the need of advanced-country action on monetary policy might have been a fairly limited one....

Close Cooperation Among Central Banks

"Although all the major currencies are now floating, none is doing so without a measure of intervention. And, contrary perhaps to the expectations of some of those who have advocated floating as a way to increase, or regain, autonomy, the need for fairly continuous consultation and a good bit of co-ordinated action among the key industrial countries in the management of floating rates has come to be widely recognized as necessary. Speaking to a meeting of the Atlantic Institute for International Affairs in November 1974, Robert Roosa envisaged the development of close-co-operation among central banks 'under the watchful eye of the International Monetary Fund'. As he put it: 'As the management of floating develops, each central bank will unavoidably be reflecting two judgments, which it must pair into one general view. First, it must have a view on the broad relationship of its own prices and availabilities for goods and services in trade, to those on average in other countries of importance for its own trade. Second, it must take a position of the likely, and appropriate, flows of capital (long and short) to be expected to move across its own exchanges. In working out acceptable zones for some intervention to help assure a degree of stability of the exchange rate between its currency and others, the central bank will form judgments as to whether the policies of the other countries are consistent with the approach to exchange rates that their central banks wish to take'.

Involvement of Each Leading Country in the Economic Affairs of the Other Nations

"And he went on to predict a 'must more frequent, intimate, and thorough interest (and even involvement) of each leading country in the economic affairs of the others'. Although Mr. Roosa was arguing – at this point – that the need to introduce some stability in exchange rate fluctuations would lead to this more intimate involvement of key countries in each other's domestic policies, he, like

others, also reached the same conclusion starting from the other end and observing the inability – in an open system with huge amounts of highly mobile capital – of a country being able to accomplish its domestic goals using traditional implements of monetary policy unless those countries with whom it was most 'interdependent' were pursuing compatible policies.

Governments Should Not Pursue Completely Independent Economic Policies

"Today, many of those who in the past advocated floating rates and many of those who in the past advocated fixed rates are finding common ground not only on the inevitability of floating – for the near-term future at any rate – given the gross divergence in rates of inflation, levels of unemployment, etc., among the key countries and the huge amounts of liquid capital, but also on the face that the floating will and must be 'managed' in some way. Floating has given governments more freedom to pursue incompatible domestic policies than they would have had in a fixed-rate system. But it has not 'solved' the adjustment problem. In a world of Eurodollars, petrodollars and multinational enterprises there are too many transmission belts for governments to be able to pursue completely independent policies or to be willing to take all the adjustment on the exchange rate.

Management of International Monetary Cooperation

"Without more co-ordination of policy, fears of importing inflation, unemployment, or both, lead to self-punishing restrictions on trade and capital movements. And as Mr. Roosa implied in his remarks, the way floating is 'managed' and how the necessary co-ordination of policy is achieved – where, by whom, according to what guidelines – seems likely to go far to set the pattern of international monetary co-operation for the next decade or so.

Piecemeal Reform of the International Monetary Fund

"However, although there is a growing consensus that more 'collective management' is needed, there is, as yet, no clear view on how or where this can best be done, or, indeed, on how far beyond technical management by Central Banks it is necessary or desirable to go. The signs point in several rather different directions. On the one hand, although the report of the Committee of Twenty which was charged with making proposals for the comprehensive reform of the IMF was shelved when the monetary system was overwhelmed with petrodollars and floating became almost universal, the idea of piecemeal reform of the IMF is still very much alive; and a new Committee of Twenty – the Interim Committee – has been established to provide for more frequent discussions among ministers and high officials from member governments between the annual meetings of the Governors.

"On the other hand, despite the formation of this new Committee of Twenty, the old Group of Ten (G-10) – which it was supposed to replace – has not, in fact,

disappeared but seems to have a new lease on life. Its members are all advanced, industrialized, OECD countries; in contrast, the new Committee of Twenty represents the full IMF membership on a constituency basis roughly the same way as do the Executive Directors. Increased IMF activity has been matched by increased OECD activity: the negotiation of the Financial Support Fund – to be established in Paris and linked to the OECD; the setting up of an *ad hoc* committee within the EPC to keep under continuing review the financial impact on member countries of the changed energy situation and to monitor the market's ability to handle petrodollars; the formation of a group of economists of international standing to examine the constraints on growth.

Secretive Meetings of the Finance Ministers

"Not only have both the IMF and the OECD been given new committees and renewed attention during the last year or two, but there has also been considerable recourse during this period to what is being dubbed the G-5, that is the informal and sometimes very secretive meetings of the Finance Ministers, sometimes accompanied by the heads of the Central Banks, of the 'Big Five' – the U.S., Japan, Germany, France and the United Kingdom.

Monthly Meetings of the European Central Bankers

"One must, of course, also add to the list of international meetings the monthly meetings of the European Central Bankers at the BIS (Bank for International Settlements) which are attended by a representative of the Federal Reserve Board; frequent meetings of the Monetary Committee of the European Community; and very close co-ordination among the members of the 'snake'. Finally, of course, there has been must direct consultation among key Central Banks and, one supposes, a good bit of agreed intervention in the foreign exchange markets.

Drastic Reorganization of Global Institutional Arrangements Needed in the Next Decade

"What one thinks should come out of the current flux – how much inter-governmental agreement should be sought about rules for floating, how much co-ordination of policy is desirable, which institutions should be used for what purposes – depends to some extent on the time-scale in which one is thinking. For reasons I have discussed at some length elsewhere, it seems to me to be clear that in the not too distant future (i.e. the next decade or so) global institutional arrangements will need drastic reorganization to enable them to bear the 'management' load that the emerging international economic system will soon require.

Individual Governments Unlikely to Transfer Sovereignty to Global Institutions

"But for the next few years – very likely for the next decade – it seems to me to be almost equally clear that governments are likely to be unwilling and unready to make the changes in assumptions about national policy and governmental structures that this would require. Some global institutions may well be somewhat improved – and the IMF seems more likely than most to be substantially strengthened – but the global institutions are not likely to be reformed radically enough to carry the entire management load.

Need for Additional Global Institutional Arrangement

"There will – almost certainly – be need for additional institutional arrangements to provide, inter alia, for the continuous consultation, surveillance, and co-ordination of monetary and other macro-economic policies the advanced countries must undertake because of their vulnerability to each other's policies of domestic economic management – their tendency to aggravate each other's problems by the way they handle inflation, recession, etc. – and their inability to deal separately with common problems, perhaps most conspicuously today large speculative capital movements. But it is important that advanced-country institutional arrangements in this field, as in others, be so designed that they help, not hinder, the necessary reform of global institutional arrangements: this is not always easy, but it should be a condition against which any special advanced-country arrangements are continuously tested.

Safeguarding IMF's Role as the Rule-making Body in the International Management of Exchange Rates

"For the next few years, in any case, the IMF, the OECD – and probably some limited group of advanced countries within that framework – the European Community, and the BIS all have important roles to play. For the present, none of the key countries is likely to be willing to bind itself to rules that are sufficiently precise and detailed so that actions designed to affect the exchange rates are taken more or less automatically. However, the primacy of the IMF as the rule-making body in the international management of exchange rates should be safeguarded. And as it becomes possible to give more standing and greater precision to the IMF guide-lines on floating, this should be done.

Intervention by Central Banks

"The Central Banks and the BIS will clearly continue to play key roles in determining how to handle short-term disruptive fluctuations, and Central Bank intervention in the foreign exchange market will obviously be the main instrument used in the 'management' of floating. But, as Robert Roosa pointed out in the speech already quoted, 'a route will have to be found for co-operation not only

between central banks across the exchanges, but also between Governments and policies that stand behind the central banks'.

Difficulties in Coordinating Economic Policies

"When one departs from generalities and seeks to describe in more specific terms what the advanced countries should now be consulting together about and, even more, when one tries to push further and to define where they should commit themselves to some procedures, guide-lines, or codes of behavior, one runs into large difficulties. Perhaps the biggest difficulty arises from the fact that there is no good way to decide in advance how far into the realm of policies normally regarded as being mainly questions of domestic economic management it is now necessary for the process of international consultation among the advanced countries to reach. There is argument rather than agreement among the experts about many aspects of the way internal and external policies interact. And, in normative terms, there is no 'concept' or widely agreed goal from which principles can be derived.

Political Feasibility of a Single International Currency

"As indicated above, this absence of a guiding 'concept' is not a trivial problem, but in terms of the OECD – or any other similar institution of advanced countries – it is likely to remain an insoluble one. The 'advanced nations' – regardless of how in terms of specific countries that group is defined – are not an economic union in embryo. Nor are they an 'optimum currency area' if that term is defined – as it must be – to mean not only the area for which it would be economically efficient but also politically feasible to have a single currency, with all the implications for central institutions and transfer of sovereignty that implies.

International Monetary System to Evolve Around Trilateral Areas

"Sooner or later some basic political choices will have to be made. In the advanced industrial countries all economic policy is becoming a continuum, and where one draws the line between areas of policy that will be determined (mainly) autonomously and areas of policy for which the decisions will be reached (mainly) collectively-and with what group of countries – are essentially political decisions. Even on the European level the key countries are not yet prepared to make a choice – either one way or the other.

"It may be that the combined effect of a U.S. reluctance to go very far toward genuine consultation on questions such as interest-rate policy and a renewed interest in action on the European level (the outcome of the British referendum and the French decision to rejoin the 'snake' may be pointers) will mean that the monetary system evolves for a time, at least, around three blocs with considerable co-ordination of policy within each of the three blocks, the main burden of adjustment between the groups being taken on the exchange rate.

"Or it may be that the combined effects of the oil crisis, inflation, and recession will be to underline the interdependence of the advanced nations as a group and to cast a new kind of doubt on the European monetary option, i.e., adding to the existing doubts about the willingness of member governments to transfer powers to the European level uncertainty about whether that is the right place to try to draw a monetary perimeter.

Gradual Evolution of Discussions and Consultation to the Global Level

"For the present no one is ready to make final decisions; a period of groping for new relationships clearly lies ahead. It may be that after a time some of the kinds of discussion and consultation that are probably now best undertaken within the framework of the OECD should move to the global level (IMF), and it may become clear that some kinds of policy co-ordination are sensible among the European countries but not among the advanced countries as a whole. But for the next few years it would seem wise to experiment with new forms of closer consultation and not try to force agreement too soon on a new international monetary system.

Means of Consultations

"The kind of consultation that would seem to be called for is not dramatically different from what has taken place from time to time in the EPC and its Working Parties. During the last couple of years discussions in these OECD committees have ranged widely over most aspects of the demand-management and balance-of-payments policies of the member countries, and in particular of the seven countries that carry most economic weight in the OECD area – the U.S., Canada, Japan, Germany, France, the United Kingdom and Italy. All the key issues – inflation, recession, recycling, capital movements – have been analyzed by the secretariat and the member countries politely invited to consider modifying their policies when the interests of the group, or the good of a particular member country, seemed to point in that direction. What then has been lacking?

Need for Continuous Consultation Among Key Governments

"The main needs now are for a more forthcoming attitude toward the process of consultation on the part of the key governments and for more flexibility in the institutional arrangements. The key governments need to consult together more continuously, to be readier to discuss with one another problems they anticipate and their proposed ways of dealing with them, and to see intergovernmental consideration reach deeper into questions of domestic policy.

"Institutionally, arrangements are needed to make it easier to see and to deal with the inter-related aspects of questions that are now too often looked at and treated separately.

"It is also important that a way be found so that this kind of more intensive, more continuous, more anticipatory discussion can normally take place on a more restricted basis than it has frequently been possible to do in the OECD.

Suggested Adaptations in the OECD

"Specific suggestions about the adaptations in the OECD that now seem to be called for and the prospects for change are considered in a later section. The essential points to be made here are (1) that there is need for an intergovernmental mechanism that can facilitate close, continuing consultation among key governments on the full range of macro-economic policies, and (2) that the governments concerned should not seek to decide in advance what can legitimately be discussed or the nature of the obligations to modify policy that may result from the discussions. Willingness to discuss anything but no prior commitment to do anything are both important, for no one really knows where the stopping points, or breaks, lie on the continuum of policy measures.

Interlinkage of Economies of the Advanced Countries

"For a long time it was assumed that international surveillance of monetary policy could be linked to a country's recourse to the IMF, either for drawings on the Fund or for permission to make a change in par values. Now, despite general floating, it is clear that the need for international surveillance has not been reduced, for the economies of the advanced countries are so interlinked that measures taken in one context (e.g. changes in interest rate to affect domestic demand) have undesirable or unintended results (e.g. on capital movements).

"It is difficult to find rules that are acceptable to everyone for many reasons. But high on the list comes the fact that there are no longer any well-defined and agreed lines to be drawn between policies of domestic concern and policies of broader common concern. Too sweeping a definition of what are matters of common concern inhibits governments too much; but too limited a definition ensures that intergovernmental action will be inadequate.

Difficulty of Drawing Lines Between Domestic and Global Policies

"This difficulty of drawing lines comes through very clearly if one looks at the IMF's current guidelines on floating. Thus, in discussing the term 'action to influence an exchange rate' it is stated that; 'Monetary or interest rate policies adopted for demand management purposes or other policies adopted for purposes other than balance of payments purposes would not be regarded as action to influence the exchange rate'. Perhaps a distinction of this kind must be made if one is trying to draft widely acceptable rules. But it is not a distinction that should be applied to discussions on monetary and general economic policy among that relatively small group of advanced countries which are strongly affected by

changes in each other's interest rates and other measures of domestic demand management.

Drafting Global Rules

"The key advanced countries now need to be willing to discuss with one another virtually all aspects of their macro-economic policy; for, given the way their economies are interlinked, there is no clear place on the continuum of closely related policy measures at which to draw the line and say that policies on one side of the line are always appropriate subjects for intergovernmental discussion while those on the other side of the line never are. Where the line should be drawn will be different at different times and it will be different for different countries. It may still be appropriate when drafting global rules to seek to distinguish between measures taken essentially for domestic purposes and those designed to affect the balance of payments. But in the more intimate, and less formalized, discussions among the advanced countries the test of what is appropriate for discussion must be the effect – anticipated as well as actual – of measures taken or not taken on other countries, not the intent behind the action, or inaction.

The Objective of Consultation

"Multilateral surveillance in the OECD, as in other international organizations, has been one of the most useful techniques of the post-war world. But in several areas – macro-economic policy being perhaps the most important – the advanced countries now need to push beyond surveillance into the much more difficult area of prior consultation. The objective of consultation is not common policies, nor, in many cases parallel policies, but rather policies that are compatible and mutually reinforcing. And, given the great weight of this group of countries in the global system, they must be policies that meet the larger tests of 'global responsibility' – a point which is considered further below." (Ibid.)

Part IX – Governmental Control of the Market

The international economic, monetary and trade systems are all parts of the "new Imperial System" which the elites have constructed to manage the world as one 'integrated' unit. In order to better manage these systems each of the major global institutions – the OECD, IMF, IBRD, GAIT and WTO – must be strengthened and given additional power over the nation-state. The process of bestowal of greater powers upon these institutions is being done slowly in order not to arouse the masses of people in the advanced countries.

Changes in the International System are Being Made Slowly

As Camps points out in the above quotations, governments are not likely to transfer massive portions of economic sovereignty to global organizations all at once. Therefore, changes will be made slowly. Coordination of monetary and

macro-economic policies of the advanced countries will steadily grow as economies are linked together by the elite planners.

The Need for Central Economic Planning

In a section entitled, "Trade and Industrial Policy," Camps points out the need for central economic planning in almost all areas of production at the global level. This means organizations such as the OECD and WTO will be doing the planning. In the "new Imperial System" planned by the elite, government regulation and control of the market is essential in order to maintain the monopolistic policies of the giant corporations. Camps stated:

Trade and Industrial Policy

"During the last few years there have been numerous suggestions, mainly emanating from American sources, that the advanced countries should adopt a goal of tariff-free trade in industrial products, extending the tariff reductions to the less-developed countries without demanding a reciprocal lowering of the latter's tariffs. The U.S. Government has not officially sponsored such a plan, however, and the reactions from other advanced countries, in particular, France, have been cool. The usual argument that tariff-free trade among the advanced countries would eliminate the most solid cement of the common market has been a conspicuous reason for the European lack of response; but the goal of free trade in industrial products tended to attract less interest in the United States and elsewhere as governments became increasingly concerned with the deepening recession and as protectionist pressures became stronger almost everywhere.

Holding on the Gains Made Since World War II in Freeing Trade

"In the last year or two the central need has been to prevent backsliding; and, in the face of recession and the disruption caused by the steep increase in oil prices, the OECD scored an important success in negotiating and later renewing an undertaking that member countries would not seek to improve their own trade position at the expense of others by resort to import controls or export subsidies. For the next year or so it seems probable that the major problem will continue to be to hold on to the gains that have been made since World War II in freeing trade. Perhaps some modest progress beyond that can be made in the context of the Multilateral Trade Negotiations (MTN) in Geneva, although it seems unlikely that the latter will make much headway until after the 1976 elections in the United States.

Working Within the Context of the GATT

"Until such time as the advanced countries decide to go further among themselves than it is possible to do on a broader basis within the context of the GATT, is there need of or scope for institutional arrangements to promote

discussions on trade questions among the advanced countries? It is desirable that countries in difficulty, notably today the UK, be encouraged to resist the temptation to use import controls or, if the temptation cannot in the end be resisted, that the use of import controls be under close multilateral surveillance.

Three Roles for the OECD

"Probably the strongest pressure against a unilateral resort to import controls for members of the European Community is to be found in the Treaty of Rome. But, for so long as it is in effect, the recently negotiated Financial Support Fund provides a very strong incentive to resist their use or only to resort to them in a situation in which use has been explicitly sanctioned as a temporary measure as part of a package arrangement involving large scale recourse to the Support Fund. If a large drawing were to be made on the Fund and the temporary use of import controls sanctioned in that context, it would be reasonable to assume that these would come under surveillance by the Support Fund. But short of this situation, there are three kinds of role for the OECD: the first and most obvious is as a place for the concerting of the views of the advanced countries on trade policies *vis-a-vis* other groups, mainly the ldc's but perhaps also the Comecon countries. The scope for advanced-nation co-ordination prior to encounters with other groups of countries either within global organizations (GATT, UNCTAD) or otherwise is discussed in a later section, and that aspect of OECD action on trade policy will be considered in that context.

Promotion of Rule-Making

"The second role is to promote rule-making in a few areas that are of major concern to the advanced countries but are not ripe for negotiation on a broader basis. Export controls would be a case in point, if effective rules cannot be negotiated in the GATT.

Concern with Industrial Policy

"The third role is of a different order and is probably better described as one concerning with industrial or structural policy. It is perhaps worth explaining what the term 'industrial policy' as used here embraces, and why this approach is suggested. Essentially the expression 'industrial policy' is used to mean those governmental policies that directly affect patterns of production: who produces what, where. Thus it is a way of looking at the whole array of measures – tariffs, subsidies, and other non-tariff barriers (ntb's), environmental controls, special arrangements for particular sectors such as energy or agriculture, company law, regulatory instruments such as anti-trust laws, some aspects of foreign investment, some aspects of science and technology policy – that are designed to stimulate or suppress particular types of production, or that have important effects on the location of industry, whether or not they were designed with that purpose in mind.

The Concept of Central Planning Versus the Free Market

"The concept of indicative planning has long been a familiar one in some countries of the group, France in particular, and for such countries the concept of an industrial policy – a domestic industrial policy – is a commonplace. For other countries, such as the United States and Germany which have been doctrinally opposed to 'planning' and have placed much greater reliance on the market, the need or desirability of even the sketchiest kind of planning remains much more controversial. Does the suggestion that there is a need for intergovernmental discussions on industrial policy require that the countries participating in such discussions have national plans at least in the French sense? If so, it is clear that one would be stirring up a hornets' nest.

Governmental Regulation of Industrial Policy

"The answer would seem to be a qualified 'no', but the argument is a bit circular, for the reason for suggesting that it is useful to focus on industrial policy is precisely because various pressures are forcing governments to be clearer about their priorities and to have a better view of the pattern of production for which they are striving. For whether or not their starting point is something like the French indicative plan the kinds of decisions that the governments of the advanced countries increasingly confront are the ones which will require them to have a view of what kinds of change in their industrial structures they are prepared to accept or to encourage. Technological change, environmental concerns and other constraints on growth, inflation and the drying-up of private sources of investment in some countries (e.g. the UK), high energy costs, and perhaps, an upward trend in the prices of raw materials generally, the activities of the multinational enterprises and the reactions of host countries to those activities, the elimination of indigenous supplies of cheap labor and restrictions on immigration, and the desirable next steps in trade liberalization will all exert pressure in the same direction. So, too, will the increasingly organized pressures from the developing countries for improved access to markets.

Need for Central Economic Planning in Almost All Areas of Production

"In short, for many reasons the advanced countries confront a need to make structural changes in their patterns of production. Some of the needed change (e.g. much of that related to environmental concerns) involves a shift from the production of private to public goods and cannot therefore be left to the market; some of the change probably could in theory be left to the market; (e.g. textiles, automobiles) but given the commitment of governments to social goals it is plain that even the most market-minded of the governments will in fact intervene to moderate the rate of change.

Concern over Each Nation's Industrial Policy

"Clearly, given their high degree of interdependence and, in particular, the overwhelming importance of trade within the group, each country's decisions on measures that affect the pattern of production, whether or not the country has anything that can be legitimately called an industrial policy, are of concern to other members of the group. But there are obvious difficulties in drawing the boundaries for advanced-country action in this field. Some of the difficulties arise from the point made earlier, and which will recur throughout this paper, that the advanced countries are not, and should not be conceived of as becoming in the future, an economic unit. Therefore one should not be seeking to organize relationships in such a way as to maximize economic efficiency for the area as a whole with substantial costs both to national efficiency on the one hand and global efficiency on the other.

Common Interest in Each Nation's Economic Health

"On the other hand, there is a common interest – although not one easily given operational significance – in each other's economic health: as indicated above, this is so not only because each member is affected by developments in the economies of the others but also because the group shares many common values and the key members of the group are linked by various security arrangements.

Coordination in the General Area of Monetary and Economic Policy

"In considering the role for advanced country co-ordination in the general area of monetary and economic policy the chief tension or point of conflict is between action at that level and similar action within the European Community, that is, to some extent they are alternative 'levels' intermediate between the nation and the global system, and extensive coordination of policy at the OECD level may weaken the impetus for co-ordination of policy at the European Community level – so long as the European Community is not clearly set on a course to full economic union. In the case of industrial policy there is some tension between these two levels. But there is likely to be much more risk in the case of industrial policy than in the case of monetary and economic policy that advanced-country co-ordination will not contribute to but create difficulties for the evolution of a more efficient global economy.

The Challenge of Structural Change

"Structural change is always painful, and the temptation will be great to strike internal bargains, to make concessions to one another at the expense of third countries. As commented on further below, this danger can be safeguarded against to some extent by giving greater transparency or visibility to OECD discussions. But it will be difficult to combine a process of more intensive advanced-country

consultations on industrial policies of the kind that now seems desirable with an adequate system of safeguards, given the present disarray on the global level.

International Consultations on Governmental Policies That Directly Affect Patterns of Production

"International consultations on industrial policy have in the past been mostly on a piecemeal or sectoral basis: textiles, steel, energy, agriculture. The last two sectors and perhaps some others will continue to need special attention, but what is being suggested here is rather different: it is really that just as with cyclical or macro-economic policy so with structural or micro-economic policy it is becoming increasingly difficult to draw the line between matters that are of purely national concern and matters that are of legitimate concern to other countries.

New Kinds of Intergovernmental Action Needed

"This means that new kinds of intergovernmental actions are now called for. An indication that the OECD countries are moving, albeit still rather tentatively, toward more concern with industrial structure was the decision at the ministerial meeting in May 1975, following a proposal made by Mr. Kissinger, to establish a special group of 'distinguished economists' (some from within governments, some from outside) to develop longer-term growth strategies for the OECD countries. The motivation behind this suggestion is not altogether clear, but whether or not this was the intent it may prove to be a way of adding to the questions traditionally examined by the EPC in its Working Party 2 (growth policies) and Working Party 4 (price policies) some consideration of the longer-term structural problems which are here being called industrial policy.

Need for Adding Political Reality to the Concept of a Global Economy

"In addition to identifying some of the structural changes that should now be accepted or encouraged – a task which needs to be undertaken whether or not it results from the work of this new group – the advanced countries should also now agree to some arrangements for continuing consultations on the broad lines of their industrial policies. As in the case of macro-economic policy, consultations should rest on acceptance of the fact that many of the measures taken essentially for reasons of domestic industrial policy – controls on or incentives to investment, subsidies, tax policies, etc. – may well be of legitimate concern to others. Some of these questions may be dealt with in the context of the GATT negotiations on non-tariff barriers (ntb's), but little is likely to be done about many questions, for they do not readily lend themselves to rule-making, until there is some political reality to the concept of a global economy. Again, as so often, one runs into the problem of concept when trying to define the purpose of advanced-country consultations.

Integrating the Lower Developed Countries into the Global Economy

"As indicated above, it cannot be to promote an efficient division of labor simply on an advanced-country basis, because the political base for such an approach is lacking and because it would distort further the global distribution of economic functions. But there is nevertheless a process to be started, both because the high degree of interaction among the members of the group legitimates a concern with one another's policies and plans and because more discussion of structure and of the mechanics of managing change is probably a necessary prelude to the shifts in global patterns of production that would seem to be needed if the ldc's are to be integrated into the global economy.

New Commitments on Trade Liberalization Needed

"Looking to the somewhat longer term it seems probable that following the current multilateral trade negotiations under GATT auspices (the so-called Tokyo Round) or, conceivably, in the context of those negotiations, the advanced countries should undertake among themselves new commitments on trade liberalization, a kind of super-code, which would supplement the more generally applicable but more limited commitments of the GATT.

Devising a New Global Institutional Mechanism

"If this were to be done, some institutional mechanism among the advanced countries subscribing to the new code would be needed, and the question would arise whether this was best done by having the new code negotiated and enforced within the OECD framework (as the code on liberalization of invisibles has been) or whether it should be done within the framework of the GATT. The right answer may be that any new super-code should be negotiated in the OECD but then transferred to the GATT, where it would be open to accession by any other GATT member and where the actions taken by the advanced countries among themselves could be subject to continuing scrutiny by the GATT secretariat. This would go some way to reassuring the non-participating countries that the actions taken were consistent with the broader obligations. The difficulty in this solution would come from the close interrelationship between the kind of discussions on industrial policy advocated above and the continuing surveillance of resort to safeguards and escape clauses that would be a necessary part of any new code.

Once Global Rule-Making Becomes Possible

"As is suggested throughout this paper, the OECD's role must be a flexible and supplementary one, filling gaps and experimenting with new kinds of international action. Once 'rule-making' becomes possible and other countries are willing and able to subscribe to the rules, the function should normally be transferred to a broader forum with the OECD making the necessary adjustments in its own program. (*Ibid.*)

Part X – Managing the Lower Developing Countries

From the previous quotes, it should be obvious that the goal of the elite is 'rule-making' at the global level. Camps points out that the elite are even desirous to have the OECD supervise and manage the lower developed countries. Concerning the LDCs she stated:

Relationships with the Lower Developed Countries

"In most of the areas that have been commented on briefly in this paper there is a tension or a contradiction between what it is useful and sensible to do in the short to medium term and the direction in which it is preferable to try to move over the longer term. Perhaps nowhere is this more true than in relationships between North and South, developed and developing, rich and poor, however in precise terms these overlapping but not identical categories of countries are defined. Nor, as a rule, is it desirable to organize collective action among a limited group of countries if other countries are both strongly affected and can themselves become a part of the process without an appreciable sacrifice in terms of the purposes for which co-operative action is sought. There is undoubtedly something that smacks both of paternalism and of selfishness in an organization of rich countries promoting the co-ordination of policies *vis-a-vis* the poor countries: paternalism when it is said to be done mainly for the benefit of the poor; selfishness when it is said to be done in self-protection.

Coordination of Consultations on New International Economic Order

"All that being said, however, there would nevertheless seem to be a strong case today for advanced-country consultation, at a minimum, and beyond that for some co-ordination of policies, not simply on specific measures like investment, aid, and commodity policy, but on the broad question of the strategy to be followed in UN discussions on the 'new international economic order'.

LDC's to Experience Limits of Independence Before Accepting Obligations of Interdependence

"It is an unhappy fact that the ldc's have themselves decided that pressure, confrontation, and the solidarity of the '77' are more likely to bring tangible results than is reliance on the conscience or the enlightened self-interest of the rich countries. If only the short term is considered, they well have been right, for ldc demands stand a good bit higher on all international agenda than they did a few years ago. In any prolonged contest the developed countries would be far stronger than the ldc's, but neither rich nor poor would gain in the end from the distortions in the international economic system that would inevitably result from a prolonged period of confrontation. It may well be, however, that for a time there must be a period of greater cohesion among the ldc's, on the one hand, and of greater cohesion among the advanced countries on the other, and of hard bargaining

between the groups. Very likely the ldc's like the advanced countries must experience for themselves the limits of 'independence' before they can accept the obligations of 'interdependence.'

OECD Should Play an Expanded Role in Coordinating Policies with the LDC's

"There is another, rather different reason for thinking that for several years, at least, the OECD should play an expanded role in co-ordinating policies *vis-à-vis* the ldc's. If no collective strategic thinking about the nature of relationships and no co-ordination of policies takes place among the advanced nations it seems almost inevitable that special arrangements of various kinds will grow up between groups of ldc's and particular advanced countries. In both the short term and the longer term, privileged arrangements of one kind and another seem less desirable – for ldc's and in the interests of harmony among the advance countries themselves – than arrangements that are more generally applicable." (*Ibid.*)

Part XI – The Goals of the Elite

The long-range goal of the "new Imperial System" is to have every nation on earth under the control of a key number of global institutions. The global institutions will then be subservient to the real managers of the world – the international bankers, investment bankers, and corporate directors. Camps outlines the goals of the elite as follows:

Relationships with the Comecon Countries

"Although today it is the advanced countries' relations with the OPEC and the ldc's that call for more co-ordination, it is worth asking whether now or in the future the OECD should have a role either in expanding economic contacts with the command-economy countries or in encouraging more co-ordination of policy among the advanced countries *vis-à-vis* the Comecon group of countries on, for example, trade, credits, joint production arrangements. Partly because of the presence of the neutrals in the OECD, relations with the Soviet Union and the Eastern European countries have not been a natural subject for the OECD. Strategic trade controls have been handled in the COCOM, a subsidiary of the NATO, and any discussions have a security aspect should and doubtless will continue to be handled in that forum. For the rest, there may on occasion be subjects – credit conditions may be one – on which some exchange of views among the OECD countries is desirable, but, for the most part, it would seem desirable to leave East-West economic questions to the UN Economic Commission for Europe.

The Concept Behind OECD

"As has been repeatedly emphasized throughout this paper, the concept behind the OECD should not be one of organizing a bloc of advanced market-economy countries to deal as a bloc with other groups, but rather to enable the advanced countries to perform more efficiently the management of their own interdependence, on the one hand, and to discharge more effectively the responsibility that inevitably rests on them given their preponderant weight in the international economic system. The need to co-ordinate policy *vis-a-vis* the OPEC countries arises mainly from the disruption OPEC policies have caused to the advanced countries' economies; if unexpected developments in Eastern Europe were to cause some comparable disturbance clearly a new situation would be created.

Participation of Eastern European Countries in OECD Activity

"There may occasionally be particular subjects on which some exchange of views among the OECD countries is desirable. There may also be times, as economic exchanges expand, when it would be useful to co-opt one or more Eastern European countries to participate in a particular OECD activity. And, as discussed further below, in their capacity as 'steerers of the system' the key advanced countries must be concerned with the better articulation between all the parts of the emerging global international economy. But short of some disruptive development comparable to the oil price increase, relationships with the Comecon countries as a group, should not, probably, be more central to the work of the OECD in the future than they have been in the past....

A Stronger System of Global Institutions Endowed with Real Power

"It seems likely to be true that a *really* efficient international economic system requires either strong leadership by a single dominant country willing and able to underwrite the system, or strong 'supranational' institutions endowed with real powers. For two decades after the second world war the United States largely underwrote the economic system of what used to be called the 'free world'. That situation no longer exists, partly because the United States is no longer prepared to do the underwriting, partly because U.S. dominance is no longer acceptable to the new centers of economic power – Western Europe, Japan, OPEC – and partly because any 'leadership role', however benign in intent, is repudiated by many within the advanced countries and within the ldc's. Even were the attitudes of the OPEC and many of the ldc's less challenging it would be easy enough to demonstrate that it is unrealistic to suggest that a group of countries meeting intermittently in an intergovernmental organization like the OECD could perform the role of underwriter as, at times, a single power can do or as, perhaps, one day's stronger system of global institutions will do.

The Right Kind of OECD

"Nevertheless, all that being said, given the present diffusion of economic power, the erosion of the rules that provided the 'bones' of the post-war system and the widespread questioning of many of the assumptions underlying the rules, there would seem to be a number of ways in which the right kind of OECD could play a role of some importance in the troubled years that now seem to lie ahead.

Need for Far-reaching Reform of Global Institutions

"There is a need for far-reaching reform of global institutions, but the kind of reform that is needed will not come quickly. There is too much rhetoric, too much passion, too little analysis, too little consensus. Deadlock would be a more probable outcome than agreement if any very substantial restructuring were today attempted. And were agreement attainable it might well be worse than deadlock, for it seems probable that the kind of new arrangements that might be agreed upon today would tend to harden the lines between the four, or five, 'worlds' into which the globe is divided.

Insistence on Unreal Form of National Autonomy and Sovereignty by the Lower Developed Countries

"As suggested above, for a time there may well be resistance on the part of the ldc's to arrangements that reflect the fact of growing interdependence, and they may insist on what they may later discover to be an unacceptably costly form of 'independence'. This ldc insistence on an unreal form of national autonomy and sovereignty seems likely to be matched by a preoccupation with domestic problems in the advanced countries and a corresponding turning inwards.

Two-Track Approach in Constructing a Global Community

"All institutional reform cannot, however, await some ideal moment in the future. Too much interconnectedness exists. If no attempts are made to improve the functioning of the partial and imperfect system that already links economies there will be further deterioration. What is needed now is, therefore, a two-track approach: more analysis and more discussion in an attempt to reach a wider consensus on the essential principles of a reformed international system and also improvements in the way international economic problems are dealt with in the short to medium term, taking care that these short-term improvements do not set in concrete patterns of relationship and principles of conduct that seem likely to prove unworkable or unwise in the longer term.

Achieving a Consensus About the Essential Characteristics of the International System to Guide Government Policy

"The OECD could help move things along on both tracks. For example, more should be done through a process of analysis and discussion to achieve more consensus about the essential characteristics of the international system which should be the goal of policy. This is not a suggestion for an exercise in blueprinting the future or for sketching out 'ideal-type' institutions. Rather the suggestion is that key policy-makers, assisted by the secretariat, should from time to time engage in free-ranging debate and discussions which were not tied to decisions on immediate policy options but were more concerned with the general direction of policy and with what Henry Kissinger would call 'architecture'.

Visions of the Desirable Future

"Such discussions would at a minimum be useful in revealing whether the separate national 'visions of the desirable future' are in fact congruent or conflicting visions. Beyond that, they should encourage among the countries that still carry the greatest weight in the international system more thought about the essential principles of a reformed system. Simply to prepare to engage in discussions of this kind would force some governments that pride themselves on pragmatism and adeptness in responding to events to think in a longer time-span than they normally find congenial about key relationships among states, about which functions should be handled at what level – national, European, advanced-nation, global – about where the market is the right arbiter and the task is to make it perform better, and where it is not and something else is needed, and other fundamental questions.

OECD Best Suited for Discussion on Reform of the International System

"The functions that fall along the second track are closer to the kind of work the OECD already does from time to time, that is actions that the OECD group of countries can take among themselves to help existing organizations perform better, and to plug gaps.

Giving New Impulse and Direction to Global Institutions

"The Rey Committee discussions on the next stages in trade policy and the discussions within the Group of Ten on SDR's are examples of how discussions among the advanced countries can give a new impulse or a new direction to global institutions. The 'trade pledge' taken in the context of the oil crisis was an example of how action by the OECD can be critical in stopping erosion in the broader system. Some of the work of the DAC and some of the current work now underway on commodities and on surveying what is being done elsewhere to help the poorest countries comes under the heading of co-ordination and gap-filling. But more could be done among this group of countries to improve the functioning of the global institutions. Moreover if through the kind of discussions suggested

above they are able to reach more of a consensus on some of the essentials of longer-term reform, stop-gap measures and short-term actions can become part of a purposeful process of piecemeal reform.

Spotting New Problems Before They Become Unmanageable

"There is another related function that also comes under this general rubric of 'system-tending', that is the task of spotting new problems and problems that have long lead-times, and of stimulating work on them before they become critical or unmanageable. Again, the OECD has had some success in this type of work. It was an early entrant into the environmental pollution field; it helped focus attention on the role of science policy in government; it helped separate myth from reality about the technological gap. But although it has played a useful role in identifying and stimulating work in new areas such as these, as an organization it has frequently tended to hang on for too long to whatever activity has been set in train. More effort should be spent on spotting problems and in activating work on questions which are not today urgent but must be acted on today if trouble in the future is to be avoided. But once work has been stimulated, the function should normally be floated off, sometimes to other intergovernmental organizations, sometimes to non-governmental international organizations. Sometimes governments or private organizations once alerted to a problem can simply be left to get on with the job.

"Obviously this kind of activity should not be simply the prerogative of an advanced-country organization like the OECD; it must happen everywhere all the time. But the advanced countries have special concerns and special responsibilities in what might be called the frontier areas. Many problems of general concern tend to hit them first and only they are likely to have the resources – expertise as well as money – required to understand what needs to be done and to try to mobilize appropriate action.

Crisis Management

"Finally, there is a role to be played in crisis management. Both weaknesses in the existing organization and tactical considerations – whether sensible or otherwise need not be debated here – on the part of the U.S. Government led it to seek to deal with the oil crisis in the first instance by organizing the principal consuming countries outside the framework of the OECD. It would not be hard to write a scenario for a better response to a sudden crisis: one element in such a response would be a more flexible institution, another would be a readiness on the part of the key advanced countries to put their common interests above their separate interests, a third would be their recognition of the wider responsibilities they inevitably bear as a consequence of their wealth and economic power for the health and orderly functioning of the wider system. It cannot be said too often that whether it be crisis management, short-term improvements in existing institutions, or planning for institutional reform the advanced countries have an obligation to

look beyond their own welfare. They carry too much weight in the total system to shift the burden of responsibility or to yield to the temptation to write off the wider world as they easy way to respond to intemperate ldc demands." (*Ibid.*)

Part XII – Streamlining the OECD

In the above statement Camps comments on the necessity of supranational "institutions endowed with real power." Camps points out that there is a need for underwriting of the international system. The United States provided the majority of this financial support until 1971. In the future, Camps and the elite planners are hoping to devise some form of global taxing system where citizens of the world would pay taxes directly to supranational institutions. This proposal has already been advanced by Bayless Manning, former president of the Council on Foreign Relations, Harlan Cleveland, Zbigniew Brzezinski, and William McChesney Martin.

Miriam Camps next outlines the steps whereby the OECD may be streamlined for its future role in the New Imperial System. Writing in a section entitled, "A New Organization or an Improved OECD," she states:

The Trilateral Alternative

"The obvious alternative to trying to improve the OECD to play the kind of role envisaged here is to build instead a closer relationship among the key centers of economic power: the U.S., Japan, and the European Community. If the European Community were in fact a European economic union the pressure to move in this direction would probably be irresistible, although it is at least arguable that even in those circumstances a formalization of the triangle would be a mistake.

A Trilateral Institution

"However the European Community is today so far from being an economic union that, somewhat paradoxically, trilateralism meets with resistance, both from those within the Community who do not want to be pushed faster than they are prepared to move toward union and see in any formal trilateralism an external pressure which they could not control, and from some 'Europeans' who fear that an effective trilateral institution would undercut some of the political and economic pressures making for European unity, in much the same ways as Atlantic unity was seen to threaten European unity in the fifties.

The Impact of Trilateralism

"Wholly apart from the resistance that arises from different expectations about the impact of 'trilateralism' upon the evolution of European unity, there is the purely practical difficulty that would arise from the fact that the Community today acts sometimes as One sometimes as Nine and not infrequently gets stuck in

immobility between the two modes. For this reason a variant of trilateralism that is heard in the United States (although seldom in Europe) is a closer relationship between the U.S., Germany and Japan. It is not surprising that this version has been propounded chiefly in the context of the management of international money, for clearly these are today the key countries in the monetary system. But building trilateralism on Germany rather than on the European Community would fatally undercut the latter and tend to revive concern – in Eastern and Western Europe – about the German role. For these reasons it would have few if any responsible adherents in Western Europe and no U.S. Administration would be likely to move, formally at least, in this direction.

Can the OECD Adapt?

"The OECD has been called a middle-aged institution and it has been characterized as an organization of civil servants talking to civil servants. Can it adapt to the kind of role that some advanced-country organization should now be seeking to fulfil, or would it be better to scrap it and create something new? Only governments can decide whether they are prepared to see the kinds of changes made that would enable the existing institution to respond to the needs of the future; if they are, self-regeneration should be possible. If they are not, it is unlikely that a new institution would prove to be much more of a success.

Reasons Why Adaptation of OECD Would Be Better Than Starting Anew

"No one would, today, invent the OECD with precisely its present membership, its extensive array of 'vertical' committees, its highly compartmentalized secretariat. There are good historical reasons why the institution is as it is; but no compelling reasons – other than the force of inertia – why the changes that now seem to be desirable cannot be made. If it can be accomplished, there are at least three interrelated reasons why adaptation would be better than starting new.

Desirable Not To Harden Lines

"First, as constantly reiterated throughout this paper, it is desirable not to respond to the current irresponsible tactics and exaggerated claims of the ldc's by hardening lines. The formation of a new advanced-country organization would inevitably be seen as a step in this direction.

Changes in Membership

"Second, the category of 'advanced countries' is changing. On the face of it, Brazil might well seem a more obvious candidate for membership in an advanced-country institution than Greece. Yet today the network of economic relationships and the attitudes of governments are such that, to put it at its lowest, neither the *presence* of Greece nor the *absence* of Brazil is much of a hindrance to effective advanced-country co-ordination of policy. This situation is changing, and it may

well be that changes in membership at some time will become imperative. If that becomes the case, the arguments for a new organization would be appreciably stronger, for it is exceedingly difficult to make radical changes in the membership of an existing organization. But, for the present, the membership problem is probably best dealt with through more use of restricted committees and some co-optation of countries for particular purposes.

Desirability of Working Toward a Reorganized Global Institutional System

"Finally, looking to the longer term, it seems to me to be doubtful whether a separate advanced-country institution should be a part of the reorganized global institutional system that it is desirable to try to work towards over the next decade or two. Rather, it seems likely to be better to think of advanced-country tiers or chambers in a number of interrelated global functional organizations.

An Eventual Global System

"In any case, the need now is not to move to arrangements that will approximate the kind of institutional arrangements that will approximate the kind of institutional arrangements that may characterize a reformed eventual global system, for views on that have yet to crystallize. Rather, the immediate need is for an adaptable, flexible instrument which can facilitate advanced-country co-ordination of policy, an organization which is willing to experiment with new techniques for fostering collective international action but one which will not stand in the way of the evolution, over time, of more effective global institutions.

Two OECD Problems

"In the self re-examination that has been occurring in the OECD during the last year or two, much attention has been given to two linked problems: how to improve the decision-making power of the organization, and how to avoid work being unduly slowed down or paralyzed by the desire of all countries to participate in everything. The insistence of the United States Government on setting up both the IEA and the Financial Support Fund *not* as subsidiary bodies of the OECD (although loosely linked to the OECD) was in large measure a reflection of the desire to have a stronger more operational form of organization that the OECD framework seemed likely to provide. Both the new organization shave limited memberships and both have weighted majority voting. Although both new institutions will have operational functions in certain circumstances, neither may in fact play an operational role if there proves to be no need to invoke energy sharing arrangements or to mount a major financial support operation.

Future Expansion of OECD

"It is possible that in the years ahead there may be other areas where it is desirable for the OECD to acquire operational functions itself or to spawn an

operational agency. But this seems likely to be an exceptional need. For the most part, as indicated in the discussion on functions, the OECD should now not be playing an operational role; indeed, it should usually be true that when any activity becomes operational it should be transferred from the OECD to some other institution, e.g., GATT, IMF, the UN, or floated off as a self-sufficient operation.

Five Main Tasks for OECD

"The OECD should itself concentrate on four or five main tasks: it should (1) serve as a forum for more intensive and continuing consultation on those aspects of economic policy – mainly macro-economic policy but also, and probably increasingly, industrial policy – that although undertaken mainly for domestic purposes have repercussions throughout the international economy and in particular on the economies of the other advanced industrial countries; (2) largely growing out of the discussions envisaged under (1), attempt to see whether there are procedures that can be adopted or principles that could be codified: in most cases once rule-making becomes possible the function should be transferred to a global forum such as the IMF or GATT, although there may be cases in which the new code will remain for an appreciable time simply a compact among the OECD countries; (3) formulate a strategy in response to the pressures for a 'new international economic order' and provide some co-ordination of policies among the advanced countries *vis-à-vis* the ldc's being mindful of all the caveats to which attention has been drawn in the earlier discussion on this point; (4) promote collective strategic thinking about emerging problems and how they can best be handled, extending from crisis management, as in the case of oil, at one end of the spectrum to long-range planning for institutional reform at the other. And, finally, (5) as a consequence of, and a deliberate part of all the foregoing, it should seek to provide a measure of 'steering' or leadership to the broader international system." (*Ibid.*)

Part XIII – The Concept of Nationalism

Miriam Camps closes her essay on the OECD by lamenting the fact that in today's world where national political and economic sovereignty are still a real force, global institutional reform is to be a slow evolutionary process. Camps outlined that:

"Reflections such as these suggest that institutional reform will be an evolutionary process, not a 'new Bretton Woods'. They also point to several general principles that should underlie the process. Perhaps the first principle and the one that it will be hardest to follow is that one must try to build into any new or reformed global institutions much more potential for evolution and for self-adaptation than has been usual. A second principle is that the global institutions must combine the discipline of common rules with the ability to tolerate differences: both the differences that arise from different values and the differences

that arise from the fact that societies at different stages of development want and need different things. The third and fourth principles are that although primacy must be given to the global system, the global boat must not be overloaded.

Piecemeal Construction of the Global Community

"Somewhat more concretely, these principles suggest that we should be working towards a capacity for global 'steering', global ground rules for the main sectors of world economic activity, but a large measure of ancillary, decentralized, more intensive co-operative action – sometimes regional, sometimes functional – coupled with 'global cognizance' of the decentralized parts of the system. For some functional areas, e.g. money, more can and must be done in the near-term on the global level than in other functional areas, e.g. industrial policy. But global rules wherever they exist should be over-riding and global cognizance a 'right'. This may mean that a desirable way to structure some global institutions will be in tiers or chambers so that countries desiring and able to go further among themselves in any area covered by global rules (e.g. trade liberalization) can do so, but that adequate machinery will exist for ensuring consistency between these actions and the global rules, and, more importantly, for making it possible for other countries to know what is happening and to have some recourse if affected. Thus it may be that eventually some of the functional tasks of the OECD (e.g. co-ordination of macro-economic policy) should be carried out by one tier or chamber in a reformed global institution and that the kind of 'steering' role suggested above for the OECD in the near-term future should be done on a global level by a rather differently composed group of countries.

Need to Give Coherence to the Present Network of Global Economic Relationships

"But speculations such as these take us well beyond the scope of this paper. For the next few years the question is whether the OECD can become the flexible, experimental, *unusual* institution which could help serve as well the wider purpose of giving coherence to the confused network of global economic relationships: or whether, after the brief period in the limelight it has recently enjoyed, it will slowly decline into irrelevance." (*Ibid.*)

Part XIV – Conclusion

One of the main purposes of the OECD is surveillance, consultation, and harmonization of the macro-economic policies of the leading industrial nations of the Western world. It acts in close collaboration with those responsible for economic summitry in the seven advanced nations. It also works closely with the IMF (Committee of 20) and the central bankers in G-10 (ten Western nations). It has also worked extensively with the Finance Minister or G-7 (seven advanced nations). Its overall purpose is to integrate the economics of the advanced Western nations into a "single unit" for collective management purposes.

The OECD is one of the key global institutions instituted by the elite for controlling the international economic system. In the future we can expect it to become more streamlined and strengthened to aid the elite financial oligarchy in governing the Western world. Of course, the reader is aware that once you successfully control the most advanced nations on earth – the less advanced nations will follow the established rules and policies if they want to be partakers of the fruits of the system. The only alternative is to face replacement by officials who adhere to the rules and rulers of the New Imperial system which is slowly being constructed by the global elite.

13. International Monetary Fund – Moving Toward a Global Central Bank

Part I – Introduction

In 1944 the elite post war planners of the western world gathered in Bretton Woods, New Hampshire to devise a new world monetary system. At the center of the Bretton Woods System is the International Monetary Fund. The IMF is a global institution designed by the international bankers, investment bankers and corporate directors to supervise and manage the international monetary system created by the international bankers, investment bankers, and corporate directors. The IMF was designed to eventually evolve into a global central bank with the power to create and eliminate international liquidity and to control the activities of national central banks – a move which would reduce nation-states to mere administrative economic units in a "new Imperial System."

Admittedly, this is quite a chore, even for the elite power structure. The elite nevertheless feel that their long-range goal can be accomplished through patience and piecemeal functionalism.

The Protector of the International Monetary System

The IMF has evolved from an international institution providing adjustment assistance to countries that experience short-term balance-of-payment difficulties to a policeman and protector of the international monetary system. The IMF also acts as a "lender of last resort" for the large global banks ensuring their stability. National governments, especially Europeans and the American Congress, have traditionally refused to transfer control over their economies to the IMF, however, in recent years this trend has been reversed as the IMF has grown in influence as a result of its new "economic surveillance" power.

Part II – Overview of the IMF

The IMF performs a great many functions today. A recent pamphlet provides the following overview:

The Purposes of the Fund

"i. To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.

"ii. To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.

"iii. To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.

"iv. To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.

"v. To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.

"vi. In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

Introduction

"The International Monetary Fund is an organization of countries that seeks to promote international monetary cooperation and to facilitate the expansion of trade, and thus to contribute to increased employment and improved economic conditions in all member countries.

"To achieve its purposes the Fund has a code of economic behavior for its members, makes financing available to members in balance of payments difficulties, and provides them with technical assistance to improve their economic management. At present, the Fund has 140 member countries, accounting for about four fifths of total world production and 90 per cent of world trade.

Surveillance of Exchange Rate Policies by the IMF

"Member countries undertake to collaborate with the Fund and with each other to assure orderly exchange arrangements and a stable system of exchange rates, together with a multilateral system of payments that is free from restrictions and thus promotes balance in the payments among countries. Members are free to

choose the form of exchange arrangements that they intend to apply, subject to their obligations to the Fund and to its surveillance of their exchange rate policies.

"The fund maintains a large pool of financial resources that it makes available to member countries – temporarily and subject to conditions – to enable them to carry out programs to remedy their payments deficits without resorting to restrictive measures that would adversely affect national or international prosperity. Members make repayments to the Fund so that its resources are used on a revolving basis and are continuously available to countries facing payments difficulties. The policy adjustments that countries make in connection with the use of Fund resources support their credit worthiness and thus facilitate their access to credit from other official sources and from private financial markets.

"Both the regulatory and the financing features of the Fund's policies contribute to the promotion of adjustment of imbalances in members' international payments. These policies evolve in response to changing world economic conditions and the needs of Fund members. They apply equally to all member countries, whether industrial or developing, whether their payments are in deficit or surplus, and regardless of their economic system.

The IMF Assists Nations with Balance of Payment Problems

"To enable the Fund to carry out its policies, member countries continuously supply it with a broad range of economic and financial information, and the Fund consults regularly with each member country on its economic situation. The Fund is therefore in a position to assist members in devising corrective steps when, or preferably before, problems arise in their balance of payments.

"Having responsibilities for the international payments system, the Fund is particularly concerned with global liquidity – that is, the level and composition of the reserves that members have available for meeting their trade and payments requirements. In 1969, the Fund was given the responsibility for creating and allocating special drawing rights (SDRs), the only worldwide reserve asset established by international agreement.

The IMF Helps Nations to Coordinate Their National Economic Policies

"The Fund helps members to co-ordinate their national economic policies internationally. In effect, it provides a permanent international monetary forum. The focus of the Fund is not only on the problems of individual countries, but also on the structure of the international monetary system and on the development of policies and strategies through which its members can work together to ensure a stable world financial system and sustainable economic growth.

Structure

"The Fund is based on an international treaty, its Articles of Agreement, that was drafted initially at a conference of 44 nations held in Bretton Woods, New Hampshire, U.S.A., July 1-22, 1944. The Articles have since been amended twice, in 1969 and in 1978.

Close Working Relationship Between the IMF, IBRD, GATT and BIS

"Membership in the Fund is a prerequisite to membership in the World Bank (International Bank for Reconstruction and Development), and close working relationships exist between the two organizations, as well as between the Fund and the General Agreement on Tariffs and Trade and the Bank for International Settlements. The Fund is a specialized agency within the United Nations system, cooperating with the UN on matters of mutual interest.

The Voting Power of Each Nation

"The work of the Fund is carried out through a Board of Governors, an Executive Board, a Managing Director, and a staff. Each member country is represented by a Governor and an Alternate Governor on the Board of Governors, which is the Fund's highest authority and which meets annually and may cast ballots by mail or cable between meetings. A member country's voting power primarily reflects its contribution to the Fund's financial resources, which, in turn, is related to its relative size in the world economy. The largest member, the United States, has 19.83 per cent of the total voting power, and the smallest member countries each have considerably less than 1 per cent.

"The daily business of the Fund is conducted by an Executive Board of 21 Executive Directors, chaired by the Managing Director, at its headquarters in Washington, D.C. Among other duties, the Executive Board acts on requests by members for financial assistance, conducts consultations with members, takes decisions on general Fund policies, and makes recommendations to the Board of Governors on matters requiring a vote of the Governors, such as the admission of new members and increases in the Fund's resources.

Five Nations Possess the Largest Voting Power in the IMF

"The five members having the largest voting power – the United States, the United Kingdom, the Federal Republic of Germany, France, and Japan – each appoint an Executive Director. In addition, the Fund's two largest creditor members may appoint an Executive Director if they are not among the five members having the largest voting power; currently, Saudi Arabia appoints an Executive Director on this basis. Fifteen Executive Directors are elected for two-year terms by groups of other member countries. The elections take place in alternate years at the time of the Annual Meeting.

Reform of the International Monetary System in 1974

"Since the early 1970s, the international monetary system has undergone major changes. During this period, the Board of Governors has been advised by special committees of its members. The first such group, the Committee on Reform of the International Monetary System and Related Issues (the Committee of 20), negotiated for two years without achieving a plan for comprehensive reform of the system, but in 1974 it recommended a series of immediate steps in a process of evolutionary reform. Further negotiation in a successor body, the Interim Committee on the International Monetary System, led to the Second Amendment of the Articles of Agreement, which entered into force April 1, 1978.

World Economic Conditions Monitored by IMF

"The Interim Committee, a 21-member ministerial-level group paralleling the structure of the Executive Board, meets two or three times a year, keeping under review world economic conditions, the international monetary system, and the role of the Fund.

"The Executive Board appoints the Fund's Managing Director, who serves both as its Chairman and as chief of the operating staff of the Fund, with a five-year term of office. The present Managing Director, J. de Larosiere of France, is the Fund's sixth Managing Director.

The IMF is Comprised of International Civil Servants

"The professional and administrative staff of the Fund is comprised of international civil servants, appointed by and owing their duty exclusively to the Fund. The Fund's professional staff consists primarily of economists, but there are, among others, accountants and legal experts. They are recruited on a wide geographical basis from the Fund's member countries. The staff numbers about 1,500 located mainly at the Washington headquarters.

Office of the IMF

"The staff is organized in five area departments (for Africa, Asia, Europe, the Middle East, and the Western Hemisphere) and a number of other departments (Administration, Central Banking Service, Exchange and Trade Relations, Fiscal Affairs, IMF Institute, Legal, Research, Secretary's, and Treasurer's). In addition, there is a Bureau of Language Services and a Bureau of Statistics. The Fund also maintains small permanent offices in Paris and Geneva and at the United Nations in New York.

Surveillance of Exchange Policies

"The Fund has the responsibility to ensure the effective operation of the international monetary system. To that end, it oversees the compliance of members with their obligations to collaborate with the Fund and with each other to ensure orderly exchange arrangements and to promote a stable system of exchange rates. Members must direct their policies toward orderly economic growth with reasonable price stability and foster orderly underlying conditions for economic and financial stability.

Guidance of Nation-State Exchange Policies

"In order to carry out its responsibility, the Fund exercises surveillance over the exchange rate policies of members. For this purpose the Fund has adopted principles for the guidance of member' exchange policies and has established procedures by which it exercises surveillance. These principles and procedures are designed to identify, and encourage the correction of, in appropriate exchange rate policies.

"In choosing the form of exchange arrangements that they wish to apply, member countries may allow the exchange rate of their currency to fluctuate or they may adopt arrangements that keep the exchange rate fixed in terms of other currencies. Such arrangements include pegging the exchange rate of a currency to the rate of another currency, or to the SDR – which is valued in terms of a basket of 16 currencies – or to some other basket of currencies. Yet another type of exchange arrangement is that of the European Monetary System, under which a group of countries observes fixed margins for the currencies within the group and allows the rates for these currencies to fluctuate with respect to currencies outside the group.

Consultation

"The Fund conducts a consultation with each member country – in principle, annually – to appraise the member's economic and financial situation and policies. Consultations are a primary means through which the Fund fulfills its obligation to exercise surveillance of members' exchange rate policies. They also help to keep the Fund in a position to deal promptly with members' requests to use Fund resources and with proposed changes in exchange practices that are subject to approval by the Fund. Members also provide the Fund with a steady flow of information on their economies, some of which is disseminated to the public in the Fund's publications.

"Consultations begin with meetings in the member country between Fund staff and representatives of the member government. On the basis of these discussions, the staff prepares a report for the Executive Board. Consultations end with a conclusion formulated by the Managing Director, expressing the views of the Fund

on the member's economic situation and policies, and this conclusion is transmitted to the member government by the Fund.

Coordination of Domestic Economic Policies at the International Level

"Recent years have been marked by unusually severe problems of international adjustment, resulting from persistent high rates of inflation and low utilization of productive capacity in many member countries. These global problems have required increasingly that members seek to coordinate their domestic economic policies at the international level. In order to contribute to this effort, the Fund staff conducts special consultations from time to time with members whose policies are of major importance to the world economy. This is done in preparation for the frequent reviews of the world economic outlook by the Executive Board and the discussions of the world economy at the meetings of the Interim Committee and the Board of Governors.

Coordinating the Policies of the Nation-State

"The reviews of the world economic outlook are a principal means by which the Executive Board monitors developments in the international monetary system and the consequences for the world economy that arise from economic policies of major countries and groups of countries. These reviews also help to ensure a better functioning of the international monetary system by bringing into focus the need for coordinating the policies of members, as well as providing the means for coordination.

Quotas and Resources

"The Fund's system of quotas is one of its central features. Quotas are used to determine the voting power of members, their contribution to the Fund's resources, their access to these resources, and their share in allocations of SDRs. A member's quota reflects its economic size in relation to the total membership of the Fund. Each member pays a subscription to the Fund equivalent to its quota, and the Board of Governors decides on the proportion to be paid in SDRs or in the member's currency.

Quotas of IMF Members

"Quotas of all Fund members are reviewed at intervals of not more than five years. Several general increases have been agreed in the past to bring Fund quotas in line with the growth of the world economy and the need for additional international liquidity, while special increases from time to time have been agreed to adjust for differing rates of growth among members and for changes in their relative economic positions....

Financial Facilities

"The financial resources of the Fund are available under a variety of permanent and temporary facilities to help members meet balance of payments needs.

"When a member uses the Fund's resources under any of these facilities, the mechanics of the transaction are as follows. The member uses its own currency to purchase from the Fund an equivalent amount of the currencies of other members, or SDRs. The currencies or SDRs drawn from the Fund are used to finance the drawing member's balance of payments deficit. After a member has made a drawing, the fund holds more of the member's currency and less of the currency drawn, or of SDRs.

Use of SDR's

"Within a specified period – or earlier if the member's balance of payments and reserve position improves – the member must repurchase from the Fund its own currency that it paid to make the drawing. In repurchasing, the member uses SDRs or the currencies of other members specified by the Fund.

"When a member country's currency is used by other members, the Fund's holdings of the currency may fall below the amount of the member's quota. This results in the member's having a reserve position in the Fund that is termed the reserve tranche. This amount is highly liquid, and, if drawn upon, the drawings need not be repurchased. If the Fund's holdings of the member's currency fall below a specified level, the Fund pays remuneration to the member for the use of its currency. The rate of remuneration is related to short-term money market interest rates and is reviewed quarterly by the Fund.

I. Basic Credit and Extended Facilities

"Under the Fund's basic facility, the credit tranches, a member may normally draw up to the amount of its quota, thus raising the Fund's holdings of its currency from the equivalent of its quota up to 200 per cent of this amount. When a member country suffers from structural imbalances in production, trade, or prices, so that adjustment requires a longer period and larger resources than are normally permitted under basic credit policies, the member may make use of the extended facility, under which it may purchase up to 140 per cent of its quota.

"Drawings are generally made under lines of credit called stand-by or extended arrangements, depending on whether the basic or extended facility is used. Under a stand-by arrangement, drawings normally take place over a period of one year, but may also be made over a period of up to three years, while under the extended facility, they are usually made over a period of three years. Under the basic facility, repurchases must begin three years after the drawings and be completed within five

years after drawings are made; under the extended facility, repurchases begin after four years and end no later than ten years after the drawings.

Drawings by IMF Members

"Drawings under all permanent facilities, except for reserve positions, are subject to a one-time service charge of 0.5 per cent, plus a charge at an annual rate that rises with the length of time during which the drawing is not repaid. These charges are maintained at lower levels than market interest rates, in keeping with the Fund's policies under which members cooperate to promote balance of payments adjustment. At present, the annual rate for the use of the basic facility ranges from 4.375 per cent for the first year of 6.375 per cent in the fifth year. For holdings drawn under the extended facility, the same scale of charges is applied, but an annual rate of 6.875 per cent is charged starting in the sixth year.

Income of the IMF

"The income that the Fund receives from charges on drawings under its permanent facilities is used to pay remuneration to creditor countries for the use of their currencies and to meet the Fund's operating costs. Any surplus may be used to increase remuneration or reduce charges, or it may be added to the Fund's regular resources or distributed to its members in proportion to their quotas. If there is a deficit in any six-month period, the Fund is required to review all aspects of its financial position, including the rate of remuneration and its charges.

"When a member receives financial assistance under the basic and extended facilities, it must adopt a program to overcome its payments imbalance. This aspect of Fund policies is known as conditionality. As a minimum, a member is expected to show the Fund that it is making a reasonable effort to overcome its difficulties. If a member's balance of payments need grows larger in relation to the size of its quota, it is likely to require a greater adjustment effort to remedy the imbalance, and the program that the member agrees with the Fund therefore requires more substantial justification. Under such circumstances, the Fund's financial assistance is disbursed in installments according to performance under the program. Performance is measured by broad economic and financial criteria, such as the member's policies regarding credit, government financing, external borrowing, and trade and payments restrictions.

Helping Members to Devise Adjustment Programs

"The Fund encourages members developing payments problems to promptly adopt corrective measures that can be supported by Fund resources. Early action is emphasized because, as a country's economic and financial imbalances become widespread and deep seated, it must usually take more basic, and therefore more difficult, steps to correct them. In helping members to devise adjustment programs,

the Fund pays due regard to their domestic social and political objectives, economic priorities, and circumstances.

II. Special Facilities

"The Fund makes resources available under two permanent special-purpose arrangements – the compensatory and the buffer stock financing facilities – and under a temporary supplementary financing facility.

Compensator Financing

"Compensator financing is available to members facing payments difficulties resulting from temporary shortfalls in their export earnings that are largely due to conditions beyond their control, such as falling commodity prices and natural disasters, including bad weather. Buffer stock financing assists members having payments difficulties to finance their contributions to international buffer stocks that are maintained to stabilize world markets for commodities, such as those for tin, cocoa, and sugar. Charges for drawings under these two permanent facilities follow the same schedule as those for basic credit facility drawings.

The Purpose of Supplementary Financing

"To meet particular needs, temporary facilities have sometimes been established. For example, members drew SDR 6.9 billion (about US\$9 billion) under temporary oil facilities set up to help meet balance of payments needs resulting from higher oil prices in 1974 and 1975. At present, the Fund makes further resources available under its supplementary financing facility to assist members facing payments imbalances that are large in relation to their quotas. Resources under this facility are provided in conjunction with drawings under the basic credit and extended facilities. For the purpose of supplementary financing, the Fund has borrowing agreements in effect with 14 members or official institutions, under which it may borrow up to a total of SDR 7.784 billion (about US\$10.1 billion). Charges for the use of such temporary arrangements are established to cover the costs to the Fund of the borrowed resources. These costs are related to market interest rate levels and are therefore considerably higher than charges for the use of the Fund's own resources.

"Depending upon the type and combination of facilities under which a member uses Fund resources, its drawings may reach five times the amount of its quota. Under exceptional circumstances, additional amounts may be provided through the supplementary financing facility.

Special Drawing Rights

"The SDR is an international reserve asset created by the Fund, taking account of the global need to supplement existing reserve assets. SDRs were created in

1969 under the First Amendment of the Articles of Agreement, in response to widespread concern over the adequacy of the growth of international liquidity. It is the declared intention of member countries that the SDR should eventually become the principal reserve asset in the international monetary system.

Allocations of SDRs

"Allocations of SDRs are made in proportion to their quotas to member countries that are participants in the Special Drawing Rights Department. The first allocations of SDRs, totaling SDR 9.3 billion, were made in the years 1970 to 1972. Allocations of SDRs were resumed with the creation of SDR 4 billion on January 1, 1979. A further SDR 4 billion was allocated on January 1, 1980. After another allocation of SDR 4 billion scheduled for January 1, 1981, SDRs in existence will total SDR 21.3 billion, about 6 per cent of present international reserves, excluding gold.

Publishing Exchange Rates in SDRs

"The method of valuation of the SDR is determined by the Fund. Since July 1974, the SDR has been valued on the basis of market exchange rates for a basket of currencies. The present basket consists of the currencies of the 16 members with the largest share in world exports. Each business day, the Fund publishes the exchange rates of a wide range of currencies in terms of the SDR, and these are reported by a number of daily newspapers and wire services as well as in the fund's twice-monthly *IMF Survey* and in *International Financial Statistics*, its monthly statistical publication.

"A participant may use SDRs, without limitation, in a wide and increasing variety of ways by agreement with another participant – for example, to obtain currency in a spot transaction, for the settlement of a financial obligation, as a long, as security for a loan, as a swap against currency, or in a forward exchange operation. In addition, if a participant has a balance of payments need, it can use its SDRs to obtain usable currency from another participant designated by the Fund. A participant may also use SDRs to make payments to the Fund, such as repurchases, and the Fund itself may transfer SDRs to a participant for various purposes, including transfers of SDRs instead of currency to a member using the Fund's resources.

"A participant with holdings of SDRs in excess of its allocations earns net interest on the excess, and a participant with holdings below its allocations pays charges at the same rate on its net use of SDRs. The interest rate on the SDR is related to short-term money market interest rates and is reviewed quarterly.

"A participant may use all of its SDR holdings and is not obliged to reacquire SDRs according to any fixed schedule. However, under the rules for reconstitution

of SDR holdings, a participant is required to maintain a minimum average level, presently 15 per cent of its SDR allocations.

The SDR is the Unit of Account for the IMF

"The SDR is the unit of account for all purposes of the Fund. Outside the Fund it is widely used as a unit of account in private contracts, such as SDR-denominated deposits with commercial banks, as well as in international regional organizations, including the African Development Bank, the Asian Development Bank, the Arab Monetary Fund, the Asian Clearing Union, the Economic Community of West African States, the Islamic Development Bank, and the Nordic Investment Bank.

Nations Peg Their Currency to the SDR

"A number of the Fund's member countries have decided to peg their currency to the SDR. The value of the currency is fixed in terms of the SDR, then set in terms of other currencies by reference to their SDR value as calculated daily by the Fund....

Gold Sales and Trust Fund

"Efforts in recent years to reform the international monetary system have included steps to gradually reduce the monetary role of gold. These measures included abolishing the official price of gold and any requirement that members make payments to the Fund in gold. In addition, the sale of 50 million ounces of gold – a third of the Fund's gold holdings at the time the agreement was reached on August 31, 1975 – was undertaken in a four-year program through May 1980.

"Half of the gold (25 million ounces) was sold directly at the former official price of SDR 35 an ounce to the countries that were members of the Fund at the time of the agreement. These sales were completed in early 1980.

"The other 25 million ounces are being sold for the benefit of developing countries in public auctions from June 1976 through May 1980. Each of the 104 eligible developing countries receives part of the profits from these gold sales directly, according to the ratio of its quota to total Fund quotas as of August 31, 1975. The remaining profits finance concessionary loans from a Trust Fund, which was established to provide additional balance of payments assistance to developing countries that are eligible because of their low per capita income and qualify for assistance on the basis of adjustment programs agreed with the Fund.

"By April 1980, the auctions of 24.5 million ounces of gold had yielded more than SDR 3.5 billion (US\$4.4 billion) for the benefit of developing countries, including about SDR 1.64 billion (US\$2.1 billion) in disbursements to 49

developing countries from the Trust Fund during three-and-a-half years of the four-year program.

Technical Assistance

"Member countries of the Fund in various stages of development make use of its technical assistance on many subjects related to improving the management of their economies. Experts sent to member countries by the Fund advise on central and general banking, fiscal, monetary, and balance of payments policies and statistics, accounting, exchange and trade systems, and operational aspects of Fund transactions and policies.

"The Fund has provided technical services at the request of members since its earliest years, and at present technical assistance is provided through consultations, special technical assistance missions, resident representatives from the Fund staff, and experts recruited from outside the Fund. The Central Banking Service, the Fiscal Affairs Department, and the IMF Institute were established in 1964 to broaden and coordinate the increasing technical assistance given by the Fund. Other departments also continue to provide technical assistance, and the Central Banking Service and the Fiscal Affairs Department participate in a wide range of other Fund activities.

"The IMF Institute is a department of the Fund whose purpose is to improve the expertise of officials from member countries in the use of modern tools of economic analysis, in the management of economies, and in Fund procedures and policies. Training courses on financial analysis and policy, balance of payments methodology, and public finance are conducted at the Fund's headquarters in English, French, and Spanish. "Some 2,500 officials from nearly every member country have completed such courses since the founding of the IMF Institute, which also provides assistance in its areas of competence to regional and national training centers.

Publications

"The Fund has an active publications program that includes regular and special reports, statistical bulletins, books, periodicals, and pamphlets. The purpose of the program is to further the Fund's work and to carry out its obligation to act as a center for the collection and exchange of information on monetary and financial problems.

"The *Annual Report* of the Executive Board to the Board of Governors, published in September for use at the Annual Meeting, reviews the Fund's activities and presents an up-to-date analysis of developments in the world economy and in the international monetary system. The *Annual Report on Exchange Arrangements and Exchange Restrictions*, published in August, reviews developments in exchange restrictions and trade practices having direct

implications for the balance of payments of member countries. It includes country-by-country descriptions of the exchange systems of most countries of the world.

The IMF is the Principle Source of International Comparable Statistics on National Economies

"The Fund is a principal source of internationally comparable statistics on national economies, including financial and economic data that are relevant to the analysis of countries' monetary and payments problems. Consequently, statistical publications form a major part of the Fund's publications program. In addition to each country's transactions and operations with the Fund, the statistics published include, among others, data on exchange rates, international reserves, money and banking, prices, production, external trade, wages and employment, balance of payments, government finance, and national accounts. These areas are all covered in the monthly and annual issues of *International Financial Statistics*, which is published in English, French, and Spanish. The *Balance of Payments Manual* (fourth edition, 1977) specifies the methodology to be used by member countries in computing and reporting balance of payments data; the detailed data collected by the Fund are given in the monthly and annual issues of the *Balance of Payments Yearbook*. Detailed data on government finance statistics are given in the *Government Finance Statistics Yearbook* and on external trade in the monthly and annual issues of *Direction of Trade*. Computer tape subscriptions to each of these statistical publications are available.

A Repository of Knowledge on Economic and Financial Matters

"As a repository of knowledge on economic and financial matters and because of the close relations that it maintains with its members, the Fund is well placed to carry out a program of research into economic and financial problems. The results of some of these studies are published in *Staff Papers*, the quarterly economic journal of the Fund.

"The *IMF Survey*, published twice a month in English, French, and Spanish, reports developments in the Fund and the international monetary system in the broader context of world economic and financial news, including changes in countries' policies. A quarterly magazine, *Finance and Development*, published jointly by the Fund and the World Bank, carries articles on topics related to the interests of the two institutions. (Official document, *The International Monetary Fund – Purposes, Structure and Activities*, Washington, D. C.: International Monetary Fund, April 1980, pp. 2-30.)

Part III – Efforts to Strengthen the IMF

The IMF is an instrument of the global elite – the international bankers, investment bankers and corporate directors. They designed, built and now supervise it. The elite financial oligarchy also selects its key officials and guide its

major policies. Those who serve as Secretaries of the Treasury, Finance Ministers, Managing Directors, etc., of various governmental systems in the world both at the national and international level are merely the managers of the system. In recent years a number of people have been calling for a strengthening of the IMF. In 1977, Cary Reich outlined some of the IMF goals which the elite would like to see instigated in these words:.

"...Now that the world has rediscovered the IMF, no time is being wasted in mapping out all sorts of grand designs for it. The IMF is being promoted as the answer to the lcd problem, as the friend and protector of the international banking system and ultimately as the 'tough cop' who will 'lay down the law' (in the words of America's *Fortune* magazine) to laggard finance ministers and recalcitrant central bankers....

"Commercial bankers – want the IMF to be a major source of financing....

"Many bankers want more from the IMF – much more. A variety of leading commercial bankers, on various occasions in the past several months, have called for formal lending links between the IMF and the banks; closer exchange of information between the two sides; the use of the IMF as an international credit-rating agency; IMF mediation in debt-rescheduling talks; and above all, a more activist stance by the IMF in monitoring and helping resolve countries' economic problems before they reach the crisis stage....

"Bankers want the IMF to be a permanent overseer of its member's economies...." (*Institutional Investor*, September 1977, pp. 35, 36, 40.)

The Evolution of a Global Management System

In an article entitled, "International Economic Policy as a System," Henry Fowler, former Secretary of the Treasury and investment banker, outlined the global management system that is evolving and the role of the IMF in it. He stated that:

"World peace and prosperity and the common interests of all nations will be served by preserving and improving the multilateral, open, and expanding international economic order which has evolved in the last twenty-five years.

"This is as true for the developing as well as the developed nations, for those with socialist or mixed economies as well as those more oriented to private enterprise. It is even more true for the peoples in all nations and parts of the planet who suffer from poverty, hunger, unemployment, underemployment and a lack of economic opportunity as well as those who live in relative affluence and security.

The Call for a More Integrated Cooperative Management System

"Even before the current crisis began on August 15th, 1971, which laid bare the cracks and flaws in the existing structure, it was recognized by many that the methods of loose and more often than not ad hoc consultation through which international economic policy had been developed and executed were no longer adequate. There were prescient and eloquent calls for a more effective and integrated cooperative management of the international economic order.

"But today that system is threatened with a tragic breakdown or, at least, a dangerous paralysis that makes it highly vulnerable if the foreign exchange and gold markets of recent months are any sign. Retreat, to the accompaniment of continued neighbor tactics, narrow nationalism, neo-isolationism or retrogressive regionalism seems as likely as advance into an improved and modernized system of international cooperation.

The Need for a Community of Nations

"What is needed is an open community of nations which is dedicated to a systematic and orderly utilization of international economic policy for the common good. This will involve a far more broadened application than we have yet witnessed of the principle of a limited pooling of sovereignty in specific areas of economic decision making that substantially affect the world economy.

The Increasing Interdependence of Western Europe, North America and Japan

"The increasing interdependence of the nations and economies and peoples of Western Europe, North America and Japan is an important basis for this economic order. Their shared values, similar patterns of political and economic organization and conduct, and common economic objectives are sufficiently compatible to ground a high degree of consultation and collaboration. Their institutionalization of this cooperation in many private as well as governmental organizations in trade, monetary affairs, financing and capital movements, international investment and development, tourism and general economic policy is the nucleus of a vast and progressive international economic system. Its promise for the remaining decades of this century is as great as the progress of the past.

A Declining National Orientation of Economic Behavior

"This interdependence is the fruit of success. Vast improvements in communication and transportation make the world constantly smaller in every sense but physical. The past success of international trade and payments arrangements since World War II has vastly increased trade, capital movements and the movements of people across national borders. International monetary and security markets now influence developments in national financial markets,

tending to tie them together. Interdependence has also grown outside the areas of trade, financial flows and movements of people across boundaries. Businesses increasingly look beyond national boundaries. So-called multinational companies lead to a declining national orientation of economic behavior, at least within the developed countries.

Economic Interdependence Circumscribes National Freedom

"This economic interdependence circumscribes national freedom to pursue widely divergent economic policies without sensitivity to their impact on other countries. These impacts become increasingly important. The technological progress that has made the spaceship possible has brought home the elemental truth that our planet is but a spaceship and we are all its passengers.

"This fact and the concept on which it is founded brings a degree of global interdependence that surely gives rise to the necessity for international economic and financial cooperation in the future, far beyond what we have had in the past. But this promise of the future is not a mere dream, for it is founded on the reality of past accomplishments.

The Momentum of Past Accomplishments

"Already the momentum of these past accomplishments requires many ongoing activities – a persistent improvement of an international monetary system, a continuing assault on non-tariff barriers, a multilateral de-escalation of restraints on international capital movements, an expanding scale and efficiency of use of multilateral assistance by the developed countries to the less developed countries, a proper balance between national interests and the multinational corporation that will give the latter an opportunity to play its important role in international economic development

Areas Ripe for International Economic and Financial Cooperation

"But other areas and opportunities for international financial and economic cooperation do not necessarily flow from past experience and do not have the advance of momentum from the activities of well established international institutions that dot the international monetary landscape. To seize these opportunities requires imaginative leadership, original action, and new international economic policy as well as national decisions by sovereign political authorities. Some of these newer challenges and opportunities where international economic and financial cooperation can play a decisive role are as current as today's newspaper. For example:

"The protection of the environment,

"The mining and utilization of the resources under the oceans,

"A meaningful adjustment of excessive population growth to available resources, and the planets ability to provide an adequate minimum quality of life,

"The utilization of space for communications, weather monitoring and other services to this planet,

"And the development and utilization of various forms and resources of energy to serve men's needs.

"In all these and many other areas science, technology and progress have given to men and governments opportunities undreamed of at the end of World War II. But, as yet, the processes of government and statecraft have not yielded an equivalent capability.

"We must recognize that the primary cause of this long recognized inadequacy of present methods of formulating and executing appropriate international economic policy and the existing crisis is a structural deficiency. We do not have a system capable of translating mutually advantageous international economic policy into meaningful and timely reality.

A Mission of the Elite

"A mission of ours should be to identify some of the pressing tasks at hand for international economic policy and to stimulate the exercise of political will in our respective countries to forge the tools adequate to perform those tasks in a systematic fashion.

Some Pressing Tasks for International Economic Policy

"There is a first and fundamental step in assuring a more effective and systematic use of international economic policy. It is the urgent and timely transition from the existing pattern of disorderly drift into separate monetary and trading blocs and a world of floating exchange rates to a modernized but truly international monetary system.

The Need to Expand the Range and Force of International Decision Making on Monetary Affairs

"This system must not abandon but build upon the Bretton Woods Agreement and the principles it embraces. The objective should be to strengthen the International Monetary Fund by expanding the range and force of international decision making on monetary affairs, and by making the structural adjustments necessary to make the institution equal to these new responsibilities.

"The Amendments to the IMF Articles of Agreement should provide for a suitable degree of flexibility in exchange rates and a more effective balance of

payments adjustment process. This process should apply equally to surplus as well as deficit countries. There must be no lasting abdication of national responsibilities to defend stable exchange rates appropriately determined under rules of common application and to insure a proper degree of official convertibility. The system must provide adequate reserves, internationally acceptable and usable, and supplementary sources of international credit to facilitate these stabilization processes while adjustment to equilibrium is achieved without damaging internal economic acts or restrictions on trade and useful capital movements.

Strengthening the IMF

"These and other necessary measures call for upgrading the International Monetary Fund to the status and function of a World Central Bank, rather than allowing it to become an obsolete monument to a noble past. They call for an intensification of international cooperation rather than forsaking it to rely upon so-called market forces and inward looking national decision making on matters that affect the peoples of other nations.

The Consolidation of the Monetary Systems of All the Nations

"The effective consolidation of the monetary systems of all the nations represented here and many others not represented is indispensable to the tasks that confront an international economic policy that will be truly responsive to the world's needs in the last decades of this fateful century.

"While we can all rejoice at recent progress toward European monetary unification, its ultimate achievement must not be accepted as an alternative or substitute for a viable international monetary system.

"The special role of the dollar as a reserve currency is no longer a barrier to a truly multilaterally operated and internationally governed system based on internationally created reserve assets. There seems to be fairly general agreement that, in a new viable and symmetrical system, balance of payments settlements in the future should be through conversion of officially created international reserve assets rather than the random accumulation of officially held national currencies.

"The United States has expressed its willingness, after a suitable transition period and upon achieving a 'demonstrated capacity' in terms of its reserve and balance of payments position, 'to undertake an obligation to convert official foreign dollar holdings into other reserve assets as a part of a satisfactory system.' It seems clear that a prerequisite for the establishment of this system will be some funding, multilateral or bilateral, of existing official reserves of foreign currencies, be they dollars, pounds or francs.

Efforts of the Committee of Twenty Should Be Supported

"The current efforts of the Committee of Twenty of the International Monetary Fund should be supported and invigorated. Recent events highlight the urgent importance of an act of political will by the governments most involved, at the highest levels, if these negotiations are to achieve the end immediately and urgently required. That end is the development of a financial institution through which the principal industrial nations can together manage their reserves and harmonize their economic policies in a manner consistent with a constructive international economic policy.

"A rather large area of potential agreement on these and other related questions was reflected in the observations of Ministers of Finance and Governors of central banks at the annual meeting of the International Monetary Fund in September when the Committee of Twenty was established to conduct formal negotiations.

Strengthening the Ties That Bind Us

"However, we must not blind ourselves to the possibility that national decision making in the ensuing negotiations may fail to achieve multilaterally agreed decisions that strengthen the ties that bind us.

"Or unplanned or unexpected events such as the ones recently witnessed on the world monetary scene may overtake the negotiations, causing them to be down played, deferred, strung out or ultimately abandoned, leading to the acceptance of the easy way out – a permanent acceptance of so-called market determined floating rates. This course dispenses with meaningful international cooperation in either the adjustment process or the creation and management of reserves – except on a regional basis.

"Consequences of failure in either of these scenarios might be to dismantle or greatly diminish the effectiveness of any truly international monetary system, encourage protectionism and trade wars between blocs, refasten more tightly controls on capital in the manner of the old pre-war exchange control systems of Europe and weaken or drastically alter the alliances that have served the cause of peace and prosperity since World War II.

"The world simply cannot afford the risks implicit in another major failure of international economic and financial cooperation such as marked the Nineteen Thirties. Every effort must be summoned to maintain the momentum that began in the wake of battle when a war torn generation had learned a bitter lesson.

The IMF, IBRD and OECD Have Developed the Principles for Guidance of the International Economic System

"In the International Monetary Fund, GATT, the International Bank for Reconstruction and Development and the Organization for Economic Cooperation and Development there have been developed principles, policies and precedents which lay a foundation for dealing with many related tasks of the international economic policy of the future.

"The stabilization and revitalization of the international monetary system is a condition to success in every other field of international economic policy, such as trade policy, appropriate relationships and assistance to developing nations, and suitable arrangements with nations where state trading is the current rule.

Strengthening the International Monetary System

"The current negotiations of the Committee of Twenty to restore and update a functioning monetary system should, therefore be both a proving ground and a beginning for institutionalizing and systematizing a cooperative management of the international economy which has developed in Western Europe, North America and Japan in the last 25 years.

"For example, it will not be enough to satisfy contemporary views of wise international economic policy to modernize the Bretton Woods system in the particulars already discussed. The negotiatory momentum which that process generates should carry over into related negotiations designed to remove restrictions and discrimination in the field of international trade and investment. There should be a systematic prevention of the use of controls on trade and long term capital movements to maintain a chronically misvalued currency or to provide long lasting protectionism for an economy that is not being subjected to an effective adjustment process.

The Importance of GATT

"The importance of making a beginning on detailed trade negotiations under GATT this year is generally accepted. Results can be of great benefit to the international economy, but the end for action in that trade field is not dictated by economic considerations alone. There is a serious danger that if conditions are not provided for a continued expansion of world trade and a lowering of both tariff and non tariff barriers for the benefit of nations generally, we may all face trade conflicts and jeopardy to the progress already made, with possible damage to Atlantic relations and those with Japan.

Breaking New Ground at the International Level

"These trade negotiations will have to break new ground internationally both as to substance and procedure.

"Because of the constitutional division of power between the Congress and the Executive in the case of the United States, the authorizing legislation should provide the Executive with authority to act when the objective can be readily defined. It should provide negotiating authority, subject to Congressional review in other cases, particularly those dealing with non tariff barriers enmeshed in domestic legislation.

The Call for Harmonizing of Policies at the International Level

"Dealing with these problems will inevitably be a long term continuing process, calling for negotiation, consultation and harmonization of policies on a continuing systematized scale.

"The same is true of the unique problems of agriculture. Nonetheless, it is essential that international trade in agricultural products be dealt with as an integral form of a world trade system, particularly as regard non tariff barriers, which are of great significance in this area. The Kennedy Round of negotiations was able to accomplish very little in this area, which is of particular importance to the United States in view of the efficiency of our agriculture and its role in our export trade.

"Agreements should be sought which would result in a substantial expansion of agricultural trade, particularly in view of the greatly increased demand that seems potential in Asia and the USSR.

Developing Internationally Accepted Rules of Good Behavior for Nation-States

"Another example of the need for pioneering efforts in systematizing constructive international economic policy is the need to develop internationally accepted rules of good national behavior to assure the liberalization and freedom of international investment flows.

"The result of an ambivalent and passive attitude toward controls on long term capital flows, both portfolio and direct, has been a maze of controls, many added in recent years to the pre-war hangovers of exchange control patterns, whenever a nation found itself with a balance of payments deficit. Sometimes these were maintained long after the deficit disappeared.

"The adjustment process should be directed toward encouraging international investment and open capital markets and controls on capital flows should not be

allowed to become a means of maintaining a chronically undervalued currency or avoiding an effective adjustment process.

Harmonizing Policies of Nation-States with Respect to Taxation of International Trade and Investment

"In addition to the removal of long standing barriers to international investment flows for balance of payments purposes, where the linkage is so close that the Committee of Twenty must deal with it directly, U.S. policy sees a need for supplementary measures. U.S. Secretary of the Treasury Shultz has urged that group to help launch serious efforts in other bodies to harmonize the practice of nations with respect to the taxation of international trade and investment, the granting of export credit, and the subsidization of international investment.

A GATT for International Investment

"The implications of these policy assertions for both direct and portfolio investment over national boundaries, as well as the world's capital markets, are tremendous, if this U.S. policy suggestion receives any encouraging response. A GATT for international investment becomes a probability.

"A sharp distinction must be drawn between long term capital movements in the nature of bona fide international investment, and certain short term capital movements which have played a very disruptive role as private parties in control of liquid capital move it from one currency to another in anticipation of substantial changes in currency values.

"These massive movements of short term funds, some as a result of currency crises, some actually producing a crisis, and all intensifying the crisis, make it not only desirable but necessary to institute some measure of multilaterally negotiated and administered control over these flows, particularly when they are disruptive and not consistent with the adjustment process and appropriate rate relationships.

A Modernized International Monetary System

"Of course, good economic policy, a modernized international monetary system and a working adjustment process are the major tools to minimize these disruptive flows. But there are bound to be occasions when abnormal and destabilizing short term flows will occur, absent some measures to control them. While there is probably no practical way to prevent all of them, there are various techniques which can be employed to moderate such movements of funds even in periods of great unrest. Perhaps the most fruitful approach is one that operates to repel inward flows when they are primarily responsive to speculation as to currency rate changes.

The Regulation of Inward Capital Flight

"In any regulation of inward capital flight, three important points should be stressed. First, there should be genuine multilateral agreement that these measures to control inward flows are desirable in general, that they are not used merely to prevent overdue parity changes, and that they will be employed in timely fashion.

"Second, the particular set of measures employed in one country may have to be different from those employed in other countries, simply because the internal institutional characteristics may differ. Therefore, multilateral agreement on measures may have to be in principle rather than in particular.

"Third, each monetary authority must have at hand the tools required to do the job, which may require the passage of new legislation in some cases.

"It must be recognized that there may be occasions, hopefully very rare, when all of the measures noted would prove to be ineffective, but when something short of a formal change in par value may be indicated. In such a situation, a temporary float could be employed usefully either by a country experiencing outward flight or by one experiencing inward flight or both.

A Coordinated Effort by Central Banks

"From this recital it will be clear that a far greater degree of coordinated effort by the central banks by the countries represented here, acting under the authority of their respective governments, will be necessary to draw an appropriate line between the allowance of constructive flexibility in exchange rates and the disruption of the international monetary system. A key part of this coordinated effort by central banks must include a better coordination of monetary policy, which is an essential factor in the attainment and maintenance of a stable international payments system, characterized by fixed par values and freedom of capital movements.

"This coordination need not take priority over domestic economic policy, but in turn, domestic monetary policy should not ignore the international consequences.

Pressing Tasks for International Economic Policy

"Space does not permit more than a brief mention of several additional pressing tasks for international economic policy.

"The list must include among others:

"...multilateral programs to improve economic conditions in the less developed countries through both private and public capital and entrepreneurship,

"...multilateral programs to promote the expansion of trade and commercial intercourse with the state trading nations on fair and equitable terms,

"...intergovernmental approaches to the treatment of the multinational corporation in view of the fact that the multiplication of these economic ventures and linkages across borders is moving so fast that some systematic harmonization of threatened disorders of separate and defensive national reactions is necessary to promote and preserve the constructive integrative cooperation in this type of enterprise, and protecting the good of all and the best interests of the people served.

"...intergovernmental approaches to the problem of assuring adequate and reliable energy resources at reasonable prices, as well as other basic raw materials which may come into short supply.

"...intergovernmental approaches to the international economic aspects of the problem of environmental protection.

Sharpening the Tools for International Economic Policy as a System

"Let us now consider how the tools for international economic policy as a system can be sharpened if our institutions are to shoulder more effectively the tasks outlined and many others that may emerge.

"In addition to my own reflections, I shall draw upon a few thoughtful U.S. contemporary commentaries from both the academic and public affairs backgrounds.¹

The IMF is Performing the Tasks of a World Central Bank

"Naturally, much of the discussion focuses on the machinery of the international monetary system. Even before the Special Drawing Rights amendment, the International Monetary Fund was performing one of the functions of a world central bank. 'It was exercising an influence over the economic policies of its member nations, in part a complement to its lending to them and in part independently of its lending.'

Forums Are Provided for Close and Regular Consultations Among Senior Officials in Nation-States

"For the principal industrialized countries, a similar function of influencing the parts to improve the well-being of the whole is being performed in the consultation process of the Organization For Economic Cooperation and Development (OECD). Forums are provided for close and regular consultations among senior officials of treasuries, central banks and economic ministries about the economic and financial policies of the industrialized countries. There is a periodic examination of the

policy objectives and operations of the member countries for compatibility with each other and with the welfare of the rest of the world.

"As William McChesney Martin has observed in his wise and stimulating lecture in 1970 entitled "Toward a World Central Bank":

"Such operation, by influencing countries to modify their policies so as to make them more consistent with the pursuit of the welfare of the entire community, begins to resemble one of the functions of a world central bank.'

Regular Meetings of Central Bank Governors at the BIS

"Another example of these processes is the consultation and cooperative arrangements associated with the regular meetings of the central bank governors affiliated with the Bank of International Settlements.

The Stages of Cooperative Arrangements Among the Interdependent Economic Community

"In dealing with economic activities with substantial international implications such as the balance of payments adjustment process, Professor Richard Cooper has pointed out that there are five broad types, or stages, of cooperative arrangements among the members of an interdependent economic community.

"1. The first involves periodic international discussion about problems of common interest, reviews of developments in each country, explanations of the actions that have been taken. But each nation basically fends for itself. That is the basic pattern of OECD operations under its current authority.

"2. The second level of cooperation also involves periodic discussion of problems of common interest, but it goes beyond the first in requiring consultation on certain kinds of measures to be taken and in calling for international justification of policies involving restrictions of international transactions.

"3. National economic policy-makers may develop sufficient confidence in policy judgments of their counterparts in other members of, for example, the Atlantic Community to make them willing to go to considerable lengths to support their decision.

"4. Where regions have quite close economic ties and considerable mutual sympathy for each others' objectives, and where factor mobility is reasonably high, greater reliance may be placed on factor mobility among the members of the community to correct imbalances in payments.

"5. For regions which have very close economic ties, where capital and labor as well as commodities move freely and where there is a high degree of agreement

on economic objectives, close coordination of domestic economic policies will serve to reduce one principal source of imbalance – divergence in these policies – and will guide the region as a whole to its global economic objectives.

"The types of cooperation envisaged in stages 4 and 5 above, may come to apply to the countries of the European Economic Community as the process of economic unification evolves, but are not currently relevant to the collective group of industrialized countries of North America, Japan and Western Europe.

Engaging in Joint Decision Making

"Hence, the real heart of the problem of reconstructing a viable international economic policy to deal effectively with the tasks referred to previously is the extent to which these developed countries operating as free democratic societies, will engage in the joint decision making envisaged in stage 3 and accept the control of national restraints on international transactions implicit in stage 2.

A Dramatic Development in the Evolution of a World Central Bank

"The most recent dramatic development to date in the process of structuring a system for joint decision making in international economic policy and evolving a world central bank is the international agreement to amend the Articles of Agreement of the International Monetary Fund to provide for the creation of Special Drawing Rights.

The SDR Provides a Central Banking Function

"The SDR mechanism provides a direct and clear cut central banking function on a basis as wide as the membership in the IMF. International money in the form of central bank reserves is created deliberately and systematically as a result of multilateral decision and distributed to the monetary authorities of the member countries according to an agreed formula for use by them under the terms set forth in the agreed amendment.

Developing Additional Attributes of a World Central Bank

"The issue tendered by the events of the last 20 months is whether or not the processes of joint decision making in the International Monetary Fund can be extended to cover many additional attributes of a world central bank, including a facilitation of the adjustment process, exchange rate flexibility, the protection of appropriate exchange rates from disruptive and destabilizing forces, and the regulation of the total of the world reserves.

The Need for a System of Joint Decision Making on International Economic Issues

"By the same token, much of the potential of wise and constructive international economic policy in areas which are outside the province of the International Monetary Fund or a world central bank, can only be realized if a system for joint decision making on international economic issues of common concern can be devised and developed.

The Need to Overhaul and Update Institutions for Economic Coordination

"As W. Randolph Burgess and James Huntley put it in their valuable book, published in 1970, "EUROPE AND AMERICA – THE NEXT TEN YEARS":

"In the 1970s it appears certain that the Atlantic Powers will face an increasing need to overhaul, update, and augment their methods and institutions for economic coordination – The OECD, the instrument most readily available to meet this need, has done valuable work but it is not yet strong enough to serve the growing Atlantic business community or mediate the increasing competition in economic policy between national governments.'

Strengthening and Giving More Authority to the IMF and OECD

"Suggestions for a strengthening and giving of more authority to the IMF and OECD raise squarely the question of whether this process is acceptable to sovereign states, located on three separate continents.

"As William McChesney Martin has observed:

"For what we have been witnessing has been a willingness of nations, by the exercise of their sovereign rights, to recognize that the national interest can no longer be pursued in isolation but is dependent on cooperative action in deference to the common good. It has become more and more clearly that this involves no loss of sovereignty but rather a pooling of sovereignty. It could even be said that what once were the principle objectives of sovereign powers – the maintenance of economic prosperity and of effective defense – can now only be achieved by the acceptance of cooperative international arrangements which by their very nature impose limitations on the sovereignty of all the nations concerned.'

A Systematized Practice of Joint Decision Making

"The approach to a systematized practice of joint decision making in limited and selective areas of national behavior raise significant questions of structure and procedure.

"It seems clear that the International Monetary Fund would have to be substantially strengthened in its makeup and structure if it is to perform the functions of a world central bank. It follows that international decision making within the context of a greatly strengthened IMF must be carried out by representatives in or to that organization, who in the words of U.S. Secretary of the Treasury Shultz, 'clearly carry a high stature of influence in the councils of their own government.'

"It also follows that national governments will be intensively and continuously involved in the processes of making and executing the international decisions involved in the adequate performance by the IMF of a central bank function. Again, Secretary Shultz in his address to the Annual Meeting of the Fund observed:

"Without a commitment by national governments to make a new system work in this way, all our other labors may come to naught.'

Strengthening the OECD and GATT

"The same observations are equally pertinent to a strengthened and reorganized OECD and any other international organizations with particular functions, such as the GATT, which may be endowed with greater authority for the continued making and execution of decisions that constitute international economic policy.

The Case for a More Coordinated Approach Among the Trilateral Nations

"In dealing with the area of broad consultations covered by the OECD, another important question looms, namely, whether the formation and execution of international economic policy should envisage any further proliferation beyond a greatly strengthened International Monetary Fund, OECD, GATT and International Bank for Reconstruction and Development. A further dispersal of additional functions among other bodies might weaken the thrust of all. Indeed, it would seem that there is a stronger case for a more coordinated approach among the nations of Western Europe, North America and Japan to give effective direction to the performance by these bodies of constructive international economic policy.

The Call for Formation of the Trilateral Commission

"One interesting suggestion on this score was floated by Dr. Brzezinski in his challenging book "BETWEEN TWO AGES." In discussing the structure for the concept of a community of the developed nations he observed:

"A case can be made for initially setting up only a high-level consultative council for global cooperation, regularly bringing together the heads of government of the developed world to discuss their common political-security, educational-scientific, and economic-technological problems, as well as to deal

from that perspective with their moral obligations toward the developing nations. Some permanent supporting machinery could provide continuity to these consultations.

The Trilateral Commission Would Operate at a Level Higher than the OECD and Be Concerned with Political Strategy

"Accordingly, such a council for global cooperation would be something more than OECD in that it would operate on a higher level and would also be concerned with political strategy, but it would be more diffused than NATO in that it would not seek to forge integrated military-political structures. Nevertheless, a council of this sort – perhaps initially linking only the United States, Japan and Western Europe, and thus bringing together the political leaders of states sharing certain common aspirations and problems of modernity – would be more effective in developing common programs than is the United Nations, whose efficacy is unavoidably limited by the Cold War and by north-south divisions.'

The Need to Substantially Strengthen the IMF, IBRD, OECD and GATT

"In summary, the thrust of opinion from some sophisticated Americans is that the tools of international economic policy as a system requires the substantial strengthening of the International Monetary Fund, OECD, GATT and the International Bank for Reconstruction and Development.

"This strengthening would involve:

- (a) the enlargement of international decision making authority in a limited number of selected areas, according to procedures that would pool sovereignty in accordance with the political procedures of the participating states.
- (b) a far greater degree of participation in these international institutions of those in the top councils of their governments.
- (c) a regular bringing together of heads of governments of the developed world to consult and exchange views on problems of global economic cooperation.

Various International Events Will Determine Future of the International Economic System

"This is the year when the conjunction of various international events is likely to determine the future of international economic policy for some years and decades to come.

"This is the year in which it will be determined whether one on this side of the Atlantic can be a good Europeanist and a good Atlanticist at the same time.

"This is also the year in which it will be determined whether an American can be a good American and a good Atlanticist at the same time.

"It is also a year which will see Japan play a key role in the community of developed nations commensurate with her trading genius and productive strength or disappoint those who have held high hopes for full Japanese emergence into improved multilateral governance of international economic affairs.

Exercise of Political Will at the Highest Level to Strengthen Institutions of International Cooperation

"Acts of political will at the highest level will be necessary to forge the tools adequate to convert our existing institutions for international consultation and cooperation into effective instruments for a system capable of the formulation and execution of international economic policy.

"The future of an initiative of this nature depends on responsible and far-sighted leadership in the free democratic societies willing to lead.

"It also depends upon an educated citizenship willing to support or, on occasion, to stimulate national leadership to establish and operate increasingly effective institutions for constructive international economic policy.

The Future Requires a Global System That Will Intensify International Interdependence

"The future requires a global system that will intensify international cooperation and interdependence. If achieved in the period ahead, the results will mark another exciting step on the road to a modern world economic order of benefit to all peoples. The working together with benefits for all could in the words of President Nixon 'help to shape the years ahead into a generation of peace.' (*The Atlantic Community Quarterly*, Washington, D. C.: Atlantic Council, Summer 1973, Vol. II, No. 2, pp. 171-187.)

From the previous comments by Henry Fowler, the reader gains a rare glimpse into the global world view, plans, and goals of the elite.

Strengthening the IMF

On October 3, 1979, G. William Miller, then Secretary of the U.S. Treasury, addressed the International Monetary Fund and World Bank meeting in Belgrade, Yugoslavia. In his address the secretary outlined the areas where it was hoped the IMF could be strengthened.

"Financially, the Fund is in a strong position to face the next testing period that lies ahead. The supplementary financing facility has been activated and remains

almost fully available. The quota increase scheduled to take effect next year will add a large and timely infusion of resources. The compensatory financing facility, which proved so valuable during the cyclical downturn of the mid-70's has recently been substantially liberalized and will provide an important element of security to primary producing nations. Furthermore, the IMF has revised its guidelines on conditionality so that it can foster orderly balance of payments adjustment in ways that meet the needs and circumstances of members.

Management of the International Monetary System

"Nonetheless, there is more to be done to assure the adequate utilization of the IMF's financial resources and to strengthen the Fund's capacity to manage the monetary system. Three areas deserve early attention.

Surveillance by the IMF

"First is surveillance. Under the amended articles, Fund surveillance – surveillance over members' general economic policies as well as exchange rate policies – is the centerpiece of international monetary cooperation. Without effective surveillance, there is no system. The Fund has moved cautiously and prudently in implementing its surveillance procedures. Bolder action is now required.

"One possibility would be for the Fund to assess the performance of individual countries against an agreed global strategy for growth, adjustment and price stability.

"Another possibility would be to provide that any nation with an exceptionally large payments imbalance – deficit or surplus – must submit for IMF review an analysis showing how it proposed to deal with that imbalance. Now, only those countries borrowing from the Fund have their adjustment programs subjected to such IMF scrutiny. Greater symmetry is needed.

Concerns Over Nation-State Policies

"We should also consider inviting the managing director to take the initiative more often in consulting members directly where he has concerns about the appropriateness of policy. Any such approaches must, of course, be fully in accordance with the fundamental principle of uniform treatment for all members. For its part, the United States welcomes and values the Fund's views and advice, and would see merit in a more active role on the part of the managing director in initiating consultations with members.

Establishment of a New Council

"As a further step, we might now give serious consideration to the establishment of the council, as successor to the Interim Committee, and give it a more specific and direct role in the surveillance process. There would be value in such a move, both substantively and symbolically, and I urge that each of us give fresh consideration to this idea.

A More Centralized Managed International Monetary System

"The second area for improvement is that of international liquidity. There has been solid progress over the past twelve months in enlarging the role of the SDR in the monetary system. A more fundamental move, the establishment of a substitution account is now under consideration. If, working together, we can resolve the problems involved in setting up that account – and I am hopeful that with good will it will be possible to resolve them in due course – the result would represent an important new approach toward greater reliance on an international reserve asset and a more centrally managed international monetary system.

"The third area in which it may be possible to strengthen the system and make the IMF more useful and influential is in the field of cooperation with the private financial markets. This is not a new idea. But the arguments in favor of it have become more compelling.

"We all recognize that the private markets will, in the future as in the past, have to play by far the major role in channeling financing from surplus to deficit nations. Official institutions, including the IMF, play a vital role in this process, but it is essentially catalytic in nature.

The Need to Ensure the Smooth Operations of the IMF

"We must ensure that the IMF is doing all it appropriately can and should do in order to ensure that private financing flows smoothly and efficiently. We should reexamine ways in which the fund can encourage the availability of better information on international bank lending, with greater uniformity with respect to potential borrowers. This could facilitate the process without jeopardizing the IMF's close and confidential relationships with members. We should

"We must also explore ways of encouraging earlier recourse to the IMF by countries facing difficulty, in the interests of maintaining overall financial stability and avoiding the need for more severe adjustment measures at a later stage if problems are left unaddressed. (Address, *Department of the Treasury News*, Washington, D.C., October 3, 1979, pp. 4-7.)

The Need to Cede Authority Over Nation-State Economic Policy to International Body

On August 27, 1979, Anthony M. Solomon, then Under-Secretary of the U.S. Treasury for Monetary Affairs, gave an address before the Alpbach European Forum at Alpbach, Austria. Solomon, former head of the New York Federal Reserve Bank, said that in order to solve the problems of the international monetary system, all nations must be "prepared to contemplate openly a partial ceding of national authority over economic policy to an international body." He stated:

The Evolution of Our Global Monetary System

"I am delighted to participate in this symposium on international monetary relations. The conference organizers asked originally that I speak about the dollar and the new European Monetary System. That relationship is an important one. But I think it equally important and illuminating to consider the broader evolution of our global monetary system. That will define the framework for relations between the dollar and the EMS. And we are at a point where, I believe, a clearer definition is both needed and feasible.

The Decision to Forge a Gradual Restructuring of the World Monetary System Rather Than a Revolutionary Restructuring

"All of us here are familiar with the intensive discussions of international monetary reform conducted in the Committee of Twenty earlier in this decade. We recall the ultimate decision not to conclude a revolutionary restructuring of the world's monetary order, but to accept a more flexible and pragmatic course that would accommodate the need for more flexible exchange rates, improve the adjustment process, and permit the system to evolve gradually in response to changing needs. The negotiators considered, but could not agree upon, a highly structured system, investing a large degree of authority in a central body or in a set of precise rules for national economic behavior. Their decision was shaped in part by recognition that the energy crisis emerging at that time would bring vast and important changes, and that those changes could not be predicted with assurance.

A Realistic Approach to Developing the System of Global Governance

"That decision was realistic. Even the highly flexible system then adopted has encountered serious strains and, at times, disruption. There is a legitimate desire for greater order and stability. But at the same time, we must acknowledge that the world has survived drastic economic upheaval, and abrupt shifts in payments patterns, without general resort to damaging restrictions. With great and prolonged effort, our economies have dug out of the deepest recession in the post-war period. Our open system of international trade and capital flows – now bolstered by the recent MTN agreement – is alive and functioning vigorously. In a real sense, we

weathered the storm. Had the C-20 negotiators chosen the alternate course, and attempted to install the monetary super-structure that they were then considering, it seems likely that apparatus would have been swept away by subsequent events, and the world economy would today be considerably bleaker.

The Need for the World to Manage Its Economic Policy and a Global Basis

"Yet the experience of the past five years has been instructive. Our interdependence has been brought home forcefully. We know our dependence on imported oil. We know that when the anchovies stray from their usual habitat, the entire world suffers a protein shortage that has real and extreme consequences, both for consumer and producers of substitutes. We know that inflation, or downturn in production, in one of our economies affects us all. The success of our post-war decision to create an open, cooperative and efficient world trade and payments system has brought unquestioned benefits. But it has also brought, in my judgment, a transcending need for the world to better organize, coordinate and, ultimately, manage its economic policy on a global basis.

"The disruptions of the 1970's were not, in the end, a consequence of failure of this or that monetary mechanism. Par values and convertibility could not have survived. Floating, in any pure sense, was not the answer then and isn't now, although flexible rates and a generally flexible attitude toward exchange rate adjustment, have helped ease – and correct – difficult balance of payments problems.

The Decision to Cede National Sovereignty to a Global Body

"The problem is much larger, and one that the world has to face: whether it is prepared to contemplate openly a partial ceding of national authority over economic policy to an international body. I pose this question in full knowledge that such a step is not politically realistic today. But real national authority and autonomy are limited in any case by the fact of our interdependence. The question is whether we learn to coordinate management of our economies, to the benefit of all concerned, or whether, because of the strains and pressures arising from our interdependence, we end up retreating from the thrust of the past three decades and slipping back into a nationally-oriented and ultimately autarchic international regime. The pressure of events is forcing us toward a choice. There is no viable in-between in the long run – and the long run is getting shorter and shorter.

Solomon Favors the Transfer of Economic Sovereignty to Global Institutions

"I should leave no question where my own choice lies. I believe that we have all benefited from the vibrance and growth of the world economy, and from the increased interdependence that has been part and parcel of that growth. It does not seem to me that a reversal of this trend – through conscious decision, or through

failure to act together – can possibly be of benefit, to the United States or the world at large.

"Indeed, I consider it highly fortunate that the monetary negotiators earlier in this decade, despite the practical problems of agreeing upon and implementing at one time a full-scale reform, were able to lay the groundwork for the gradual evolution of much more effective and coherent management of the world economy.

Groundwork Exists for Transferring Economic Sovereignty

"The groundwork exists in two important provisions of the amended IMF Articles of Agreement. They are stated in arcane terms, but they reach the essence of the problem.

Surveillance Role of the IMF

"The first gives the IMF an explicit role in surveillance over members' exchange rate policies and the balance of payments adjustment process.

Making the SDR the Reserve Asset of the International Monetary System

"The second establishes the objective of making the SDR the principal reserve asset in the international monetary system.

"Together, these provisions – dealing with adjustment on the one hand and liquidity on the other – provide a basis for the evolution of a strengthened IMF role in guidance over the system as a whole. In the area of surveillance, the Fund has adopted principles for the guidance of members in conducting exchange rate policy, and procedures and criteria for use by the Fund in assessing members' policies. The guidelines, the IMF practice in exercising surveillance, recognize that the effort cannot be confined to exchange rate policy narrowly defined, but must be broader. It must encompass domestic economic policies, as they affect the balance of payments adjustment process. The surveillance provisions give the IMF enhanced capability to advise not only countries in balance of payments deficit, but also those in surplus, on the international implications of their policies and on approaches they might appropriately follow to correct their payments imbalances. They give promise of providing a more symmetrical approach to the adjustment process, which is essential to an effectively functioning system.

The Power of the IMF Must be Strengthened

"Progress in implementing the IMF's surveillance role had been cautious and deliberate. This is understandable, given the very short time that these powers have existed, and the need to respect member governments' desires to preserve the limited autonomy they have in an integrated international economy. Yet it is clear

to me that this power of the IMF must be developed and strengthened, if we are to achieve genuine and lasting monetary stability on a global basis. The focus of the surveillance provisions is right – on the underlying conditions that are a prerequisite for stability. But the test is in making those provisions an effective framework for policy coordination, and ultimately policy direction, by the IMF.

The Development of the SDR

"In the area of international reserves and liquidity, renewed attention is being given to the development of the role of the Special Drawing Right over the longer term. A decade ago, the SDR was seen as a potentially important innovation, a means of creating needed world liquidity without a concurrent build-up in official holdings of dollars. Creation of the SDR, however, did not address the problem of payments imbalances, nor the continuing expansion of both the demand for and supply of liquidity in the form of dollars and other currencies. In the C-20 decision not to attempt to establish a highly structured system, the objective of making the SDR the world's principal reserve asset was incorporated into the amended Articles.

Increasing Reliance on a Single Global Reserve Asset

"That objective remains in accord with the main body of thinking today. It is widely felt that the stability of the system as a whole would be well served by increasing reliance on a single, internationally created and managed, reserve asset. Even though we cannot know all of the implications of this type of evolution of the system, it is clear that the pressures of the past few years are reminders of the problems that can be caused if there are substantial shifts among reserve currencies – not only in terms of the exchange markets but also in terms of the impact on domestic monetary and economic circumstances in the countries concerned. At the same time, with the existence of large international financing needs and in the absence of a practical alternative, the scale of reserve holdings in the form of currencies has grown enormously. There is little reason to expect that situation to change unless conscious steps are taken to make it change. An increasing role for the SDR, holding potential for more active management of international liquidity through the IMF over the longer-term, would be an important complement to enhance IMF influence over balance of payments adjustment through its surveillance provisions.

Enhancement of the Role of the SDR

"Certainly from a U.S. viewpoint, enhancement of the role of the SDR is a legitimate and desirable direction for the system's evolution. The large international role of the dollar today is itself the product of an evolutionary process, arising from the predominance of the U.S. economy in the early post-war years, the mechanics of the Bretton Woods system, and the scope, openness and strength of the U.S. financial markets. We are sensitive to the responsibilities

inherent in the current role of the dollar and determined to maintain dollar stability, although developments in the world economy over the years suggest some basis for a gradual reduction in the dollar's relative role. Many economies have advanced rapidly relative to the U.S. economy, as well as in absolute terms. Capital markets in several countries have become larger and more efficient, and earlier controls over capital flows have in many cases been relaxed. The formal and technical arrangements of the current monetary system do not compel reliance on the dollar for intervention and reserve purposes. The formation of the EMS, with its emphasis on intervention in the currencies of participants rather than dollars, represents a significant shift in this respect.

The Institutionalization of the ECU

"But despite these underlying changes, the U.S. continues to supply the world's liquidity to a disproportionate degree, and others have not fully assumed the role that would appear justified by their domestic economic and balance of payments strengths. It would be costly and damaging to the world economy for the U.S. to attempt to reduce the openness of its capital market. What is needed is a more positive attitude and further action on the part of others to share more evenly the responsibility of meeting the world's credit needs. Further steps can be taken in the removal of exchange controls and other restraints on access to capital markets. In addition, the EMS may offer important potential. Phase II of the EMS envisages the institutionalization of the ECU as the key instrument in intra-EC settlements. It is clear that the ECU can strengthen and help solidify the European regional arrangement, but there is a question whether EMS participants will permit, and perhaps encourage, a wider role for the ECU. Many have sought to discourage reserve role for their own national currencies. The ECU may provide an alternative that could facilitate a greater European role in meeting world credit needs without at the same time moving the reserve system toward still greater reliance on national currencies. Although such a development could constitute a forward step, it would not, of course, provide like the SDR a full answer to the ultimate goal of establishing a single international reserve asset, subject to decisions of the international community as a whole.

A Gradual Reduction in the Dollar's International Role

"It should be evident from these comments that the United States has no wish to preserve artificially a particular role for the dollar, even though we recognize its current importance and are determined to ensure its stability. A gradual reduction in the dollar's relative international role would appear consistent with underlying developments in the world economy, and that prospect, if it materializes, does not cause difficulty for the United States. Rather, our objective is to assure that any change be accomplished smoothly and consistently with the requirements of a stable, open and growing world economy. Development of the SDR as a more

prominent, accepted and useful asset could contribute to orderly change and evolution toward a better managed reserve system.

Steps to Enhance the Role of the SDR

"The IMF membership has already taken a number of steps to enhance the role of the SDR. We have agreed to resume allocations, taken action to bring the SDR interest rate more closely into line with market rates, and expanded the uses that may be made of SDRs. Most recently, the IMF has begun intensive examination of the possibility of establishing a so-called substitution account, which could accept deposits of dollars in exchange for SDR-denominated claims on the account.

"The concept of a substitution account is not new. Such an account in a different form was an important element of most reform plans considered by the C-20. Even though no such account was established at the time, there was widespread agreement that the possibility should be kept under study. It is appropriate to examine the idea afresh, as a possible contribution to renewed evolution toward greater reliance on the SDR.

The Existence of a Substitution Account

"A substitution account, properly designed, would offer a number of attractions for the international community in general. The SDR, like the ECU, is a diversified instrument, inherently involving less exchange risk than holdings of a single national currency. The existence of a substitution account would thus provide an internationally sanctioned, nondisruptive means for countries to achieve a more diversified and stable reserve position without having to hold a number of national currencies. And implementation of an account would give important direction for the future as a concrete move toward wider use of a fully international asset – the SDR – rather than allowing us to fall by default into an unregulated multiple currency system.

A Lasting Move Toward the SDR

"We must take considerable care to design an account that meets these objectives. It is not easy. It should, for example represent a lasting move toward the SDR, not a move to be reversed if circumstances change. In practice, the characteristics of the reserve asset issued by the account will have to be acceptable both to holders and to issuers of currency reserves, designed to satisfy the needs of countries in widely differing circumstances. At the same time, the instrument's characteristics should parallel those of the SDR as closely as possible – which could, over time and with experience, imply further changes in the SDR itself. An account would have to incorporate an appropriate balancing of the rights and obligations of participants in a wide variety of circumstances, and – a particularly thorny question – an equitable division of any costs arising from its operations.

Evolution of the International Monetary System

"For an account to succeed – in order for the effort to give a meaningful sense of direction for the evolution of the system – it needs to have broad and genuine support and widespread participation by the international community. In the months ahead, we will determine whether that support exists. If it does not, we should be prepared to consider what other steps might be possible in order to help assure an orderly evolution of the reserve system.

Continued Cooperation Among Nation-States

"It is important that we understand what can be expected, and what cannot be expected, of a substitution account. It should not be seen as a dramatic step or revolutionary change. It will not resolve recurring problems of payments imbalances, nor guarantee exchange market stability. It cannot prevent the strains on the international monetary system caused by the oil price increase and the related huge financing needs. It will not eliminate the problems of managing our national economies in an increasingly interdependent world. These problems, as I have stressed earlier, must be addressed through parallel development of the IMF's authority and influence over the adjustment process and through continued cooperation among major countries on macro-economic and monetary policies.

A Firm Step Toward Reliance on an International Reserve Asset

"But what a substitution account can do is important and worth doing. It would set out clearly the direction we intend to move in the future. It would represent a firm step toward increased reliance on an international reserve asset, holding potential for more active official management of liquidity. And it would provide a valuable opportunity to gain wider experience with the SDR, and set the stage for expanding its official and private roles further over the long-term.

A Large Agenda for Future Study

"If the objective of enhancing the SDR's international role is confirmed and a substitution account established, there will remain a large agenda for future study and eventually negotiation. In my personal view two main points will be particularly worthy of consideration as time passes.

A Larger International Role for the SDR

"The first is whether a larger international role for the SDR implies not only a larger role in official reserves but also in private transactions and balances. Considerable attention has been paid in the current IMF discussions to giving the assets issued by the account a market orientation in order to enhance their liquidity and attractiveness. There are in addition broader reasons for promoting private use of the SDR, in terms of moving the entire system toward reduced reliance on

national currencies. I know there is skepticism in private circles about private use of the SDR. But I feel this may be overdone. There has been some private experience with 'basket' instruments, and the markets have demonstrated capacity for innovation and evolution in the past. The SDR would not be a difficult instrument for private borrowers and lenders to hedge. So I think there is a potential for development of a private role for the SDR. And if governments agreed that this was a desirable course, they could take steps to encourage it, for example, through denominating in SDR official borrowing for balance of payments reasons. There is no question that development of a large private role for the SDR would take time. But it is achievable and may prove to be highly desirable as the system evolves.

Extending the IMF's Surveillance Role

"The second question is whether and to what extent our efforts to enhance the SDR's role in the system should be accompanied by more active official management of the demand for and supply of international liquidity. The very rapid expansion of international bank lending – all in national currencies and largely in dollars – has not only increased the system's reliance on national currencies but also raised concerns for the stability of the banking system. On the supply side, careful attention is presently being given by the major central banks to prudential questions and to the question whether there is a need for closer official regulation of the volume of international banking activity, paralleling that in domestic markets. On the demand side, we need to consider the possibility of extending the IMF's surveillance role over the adjustment process to cover advice on the appropriateness of borrowing by individual countries from the point of view of their own situations and that of the system as a whole. Such questions obviously have relevance to the conduct of national monetary policies and the effective functioning of the balance of payments adjustment process.

Management of the Interdependent Global System

"The questions I have posed in these two general areas are long range in nature, but they will have to be addressed and answered in time as we continue our efforts to manage our increasingly interdependent global system. For the nearer term, our discussions will concentrate more heavily on determining whether the objective of enhancing the SDR's role in the system should be confirmed along the lines of the current proposal and, if so, what implementing steps can be taken.

A Comment on the World Economic Situation

"Before concluding, let me comment briefly on the current world economic situation and its relationship to the longer range questions I have been discussing today. I noted earlier that the world had adjusted with reasonable success to the oil price increases and other disruptions in the middle of this decade. It is particularly unfortunate that the world economy has again been thrown into a situation

reminiscent in some ways of that earlier period, following the 60 percent increase in oil prices in the first half of this year. The OPEC surplus will again rise sharply, to something on the order of \$40 billion. The oil-importing world will shift into heavy deficit. The poorer developing countries will be particularly disadvantaged. World growth will be reduced, inflation worsened in all countries. International financing needs will escalate, and we must anticipate the re-emergence of some strains and financing difficulties on the part of individual countries.

Our Arrangements for Monetary Cooperation Are Strong

"But we should not overlook our strengths. The international financial system – private and official – has demonstrated a major capacity to respond to changing demands quickly and efficiently. Our arrangements for monetary cooperation are strong. The very large underlying imbalances among the major countries continue to narrow. The German surplus is dropping sharply, and the Japanese surplus has, for the time being, vanished. The U.S. position is strengthening rapidly and will move into moderate surplus next year. These shifts will provide a good basis for greater exchange market stability – and the U.S. is firmly committed to maintaining a strong and stable dollar. And the IMF – bolstered by the Supplementary Financing Facility and soon to be expanded by the quota increase approved last year – is in a good position to meet enlarged demands for balance of payments financing and adjustment programs on the part of its members.

"In short, recent oil price increases will undoubtedly cause difficulties in the international financial area. The immediate situation will have to be monitored carefully, but our safeguards for the preservation of our open system of trade and payments are still strong. At the same time we must realize that present difficulties are in part a symptom of the longer run problem – managing an increasingly interdependent and vulnerable world economy. Preoccupation with short term needs should not divert our attention from consideration of steps that can be initiated to guide the evolution of our system over the longer term.

The Foremost Aim of Elites in America is the Orderly Evolution of the International Monetary System

"In closing, let me make several points clear. The foremost aim of the United States, in working to improve the monetary system, is the orderly evolution of that system. In the process of surveillance, for example, we expect to receive advice from the Fund concerning our own policies, and will give that advice the most serious consideration. We expect others to do the same. In the discussions of a substitution account, we do not seek to force on other countries changes in the ways that they manage their reserves, but to offer an additional, attractive option that will give greater meaning to the objectives established in the amended Articles of the IMF and point the way toward a more stable reserve system in the future. In none of these efforts do we seek to avoid our responsibility to restore balance in

our external accounts and maintain a sound and stable dollar. That obligation is clear and will be met. It is not our aim, now or in the future, to impede the progress of the EMS or interfere with the development of the ECU. Furthermore, we realize that the success of the EMS will depend in part on the stability of the international system as a whole, including the stability of the U.S. dollar, just as the operations of the EMS will have implications for the stability of the broader system.

Initiating Steps to Guide the Evolution of the International Marketing System

"We are faced with an increasingly acute need to decide together how we wish to manage our interdependent world economy. If we cannot move forward, there is real danger that we will slip back. It would be idle to think that strong, cooperative management will come easily or overnight. But we can, and should, set our course clearly and initiate steps that will effectively guide the system's evolution." (Address, *Department of the Treasury News*, Washington, D.C., August 27, 1979, pp. 1-10.)

Without the approval of the United States Congress, the IMF would lack almost 25% of its contributions and the ability to exercise control over the United States economic policies. Congress could terminate IMF influence over the United States, however, it continually supports the elite construction of the international monetary system.

On March 10, 1980, G. William Miller, then Secretary of the Treasury, appeared before the Committee on Foreign Relations of the United States Senate. His purpose in appearing before the Congressional body was to request additional support and funding of the IMF. He said:

"Thank you for the opportunity to appear before the Committee in support of S.2271, legislation to strengthen the International Monetary Fund and to provide for maintenance of the U.S. role as the leader of this important institution.

"We meet at a time of heightened international tension, affecting vital U.S. strategic and economic interests. Recent events have driven home dramatically the close interrelationship between foreign policy and economics. The turmoil in Southwest Asia has contributed to oil supply shortages and uncertainties and placed added strains on the international financial system. These developments have come at a time when the world economy is already facing extremely difficult problems. The massive oil price increases of the past year have led not only to slower growth and surging inflation but also to another period of dramatic changes in the balance of payments positions of the oil importing countries. And today's world economic environment is likely to make it both more difficult for nations to obtain the financing needed to deal with their balance of payments problems, and more difficult for them to make the necessary adjustments to changed external circumstances.

The IMF is the Cornerstone of U.S. International Economic Policy

"The success of our efforts to deal with political tension and maintain peace in the 1980's will depend importantly on our ability to address current economic problems. The IMF is a cornerstone of U.S. international economic policy, providing the institutional framework for world monetary cooperation, finance and trade that is vital to the economic prosperity of the U.S. and the global economy. A strong and effective IMF is essential to our efforts to assure world monetary and financial stability and to provide the broad cooperative framework we will need to overcome fundamental economic difficulties.

The Two Fold Purpose of the IMF

"The IMF serves two related functions – general guidance of the monetary system and provision of temporary financing in support of members' efforts to overcome their balance of payments problems.

"First, the IMF's Articles of Agreement constitute the operating rules of the international monetary system and establish member countries' obligations to promote a cooperative and stable world monetary order. The decade of the seventies brought major changes in the international monetary system and in the IMF's role in guiding the system's operations.

"In the area of balance of payments adjustment, the Bretton Woods par value exchange rate obligations have been replaced by obligations on members to pursue policies to achieve the underlying economic stability that is needed for genuine and sustained exchange rate stability. The IMF has been given the task of surveillance over members' compliance with those obligations, and over the operations of the balance of payments adjustment process more generally.

"In the area of international liquidity the IMF membership has established the objective of making the Special Drawing Right (SDR) the principal reserve asset in the international monetary system to help avoid the instabilities inherent in a system based on a multiplicity of national currencies.

The Need for Greater Symmetry Among Nations

"These changes have paralleled and to a large extent reflected changes in the position and role of the dollar in the system. The original Bretton Woods arrangements assumed a fixed and central role for the dollar, with the U.S. position essentially passive and the product of other countries' actions in pursuing their own balance of payments policies and objectives. That arrangement ultimately became both unsustainable and intolerable in terms of U.S. economic interests. The new arrangements have provided much more scope for balance of payments adjustment by the United States, and recognize the need for greater symmetry in encouraging adjustment by all nations – those in surplus as well as those in deficit.

Promoting the Role of the SDR

"At the same time, the world's reserve system has been under-going significant change. Increases in the relative economic size and financial capacity of other major countries have tended to bring some growing use of their currencies in international transactions and reserves. On the one hand, such a development could help to mitigate some of the burdens on the dollar and U.S. financial markets that arose from its extremely large international role. On the other hand, the process of change can itself be unsettling and disruptive, and there is a widespread view that increasing reliance on the SDR – an internationally created and managed reserve instrument – would be preferable to development of a full-scale multiple currency reserve system. The IMF over the past few years has taken a number of important steps to promote the role of the SDR and is presently considering a potentially significant further step in its examination of the substitution account.

A Strong IMF is Necessary to Guide the Reserve System

"The dollar nonetheless remains critically important to the operation of the international monetary system, and the U.S. economy remains a powerful element of that system. This will continue to be the case, and we recognize and accept the responsibilities incumbent on the United States to maintain a sound economic position and a stable dollar. At the same time, a strong IMF able to encourage effective economic and balance of payments adjustment by all countries and able to guide the orderly evolution of the reserve system – is of direct and immediate importance to our economy and to our efforts to maintain the integrity and strength of the dollar.

"The second basic function of the IMF, closely tied to its role in guiding the overall operation of the system, is the provision of temporary financing in support of members' efforts to deal with their balance of payments difficulties. Its aim is to encourage timely correction of balance of payments problems in a manner that is not destructive of national or international prosperity – and thus to promote a smoothly-functioning world payments system in the context of a strong and stable international economy. This is a central objective of the IMF and one in which all members must participate as an obligation of IMF membership.

The Nature of IMF Financing

"It is important to understand the nature of IMF financing. The IMF is essentially a revolving fund of currencies provided by every member and available to every member for temporary balance of payments financing under prescribed criteria. Each country is obligated to provide its currency to the IMF to finance drawings by other countries facing balance of payments needs; and each country in turn has a right to draw upon the IMF in case of balance of payments need. When a country provides financing to the IMF – that is, when its currency is drawn from the Fund – it receives an automatic and unchallengeable right to draw that amount

from the IMF in usable foreign exchange. This is the so-called 'reserve position' in the IMF, an automatically available reserve claim on the IMF which is normally carried in countries' international monetary reserves.

"Financing thus flows back and forth through the IMF depending on balance of payments patterns and financing requirements at any given time. There is no set class or group of lenders or borrowers, no concept of 'donor' or 'recipient.' All major industrial countries have drawn upon the IMF at times, and many members, developed and developing alike, have been both lenders and borrowers during the history of their participation in the IMF.

Proposed Increases in Quotas

"Throughout its history, the IMF has needed periodic increases in its quotas in response to the rapid growth of world economic activity and international trade and financial transactions. To maintain a strong IMF, capable of encouraging needed adjustment while providing the temporary financing required to maintain monetary stability, we must assure that its resources are adequate to meet potential demands. The proposed 50 percent general increase in IMF quotas is a key element in assuring that strength.

"Quotas play a central role in the IMF. Members' quota subscriptions constitute the IMF's permanent financial resources. Quotas determine both the amount of IMF resources a member can draw when in balance of payments need, and its obligation to provide resources when its balance of payments is strong. Quotas determine the distribution of SDR allocations. And, of key importance in all IMF operations, quotas also determine voting power. Unlike the case in many institutions, where member countries try to hold down their shares of participation, in the IMF countries compete to gain the largest possible share of the total because of the votes and financing that a larger quota share provides. The United States has by far the largest IMF quota and thus the largest share of votes and potential access to IMF resources.

IMF Quotas

"To ensure that IMF quotas remain realistic and adequate, they are reviewed periodically in relation to the growth of international transactions, the size of payments imbalances and financing needs, and world economic prospects. Such a review was initiated in 1977 and led to a resolution adopted by the IMF Board of Governors on December 11, 1978, with the U.S. Governor concurring, calling for an increase in overall IMF quotas by 50 percent, raising total quotas from about SDR 39 billion to roughly SDR 58 billion. The increase proposed for the U.S. quota amounts to SDR 4,202.5 million, equivalent to about \$5.4 billion at current exchange rates. This increase would raise the U.S. quota by 50 percent from SDR 8,405 million (or about \$10.9 billion) to SDR 12,607.5 million (or about \$16.3 billion).

The IMF's Role in Guiding the Evolution of the International Monetary System

"The negotiation of quota shares is always difficult with pressures on the U.S. to accept a smaller quota share. Given the key roles of the dollar and the U.S. economy in the international monetary system, and the IMF's central role in guiding the operations and evolution of the system, it is essential that the U.S. maintain an appropriate share of quotas and votes, and thus its influence over basic decisions about the system. In the end, the pressures for a reduced U.S. share were successfully resisted during the most recent review, and only a very few selective changes in quota shares, all within the LDC group, were agreed.

"The decision to propose a 50 percent overall increase in quotas reflected a widely felt view that quotas had, by any measure, failed to keep pace with potential balance of payments financing needs. Despite quota increases on four occasions during the IMF's history, aggregate quotas had fallen to about four percent of annual world imports in comparison with 8 to 12 percent during the 1960s and 10 to 14 percent during the 1950s. The adequacy of quotas had eroded particularly during the seventies, as the ratio of quotas to members' aggregate deficits fell by two-thirds between 1971-73 and 1978. In mid-1978 the Fund's usable quota resources – that is, its holdings of the currencies of members then in strong payments positions – totaled only about SDR 16 billion, or just over one percent of world imports. In November 1978, before the Supplementary Financing Facility was put in place, the amount of usable quota resources was effectively halved to around SDR 8 billion when the U.S. drew the equivalent of \$3 billion and the dollar was taken off the IMF's 'budget' of currencies used in financing current drawings.

"These shifts in the IMF's 'liquidity' illustrate the difficulties of projecting either the level of usable IMF resources or the level of future drawings on the Fund. In its 1977 quota review, the IMF estimated that the level of international transactions between 1978 and 1983 would increase by 60 percent in SDR terms. In fact, that 60 percent figure is now much too low, as inflation, oil price increases, and other factors have caused a much more rapid expansion in the value of world trade and financial transactions. And even if we could accurately predict future levels of world trade, we would not know the pattern of trade, the size and distribution of payments imbalances, or the availability of financing from banks and other sources.

The Setting of Quotas

"In determining how large a quota increase would be needed, it was recognized that the IMF's Supplementary Financing Facility, introduced last year to provide badly needed resources to the IMF on a temporary basis, would be phased out after

a 2-3 year period. That Facility was proposed and is regarded as a bridging operation to be followed by an increase in the IMF's permanent resources.

"It was in the light of these considerations that the IMF membership concluded that a 50 percent increase in total quotas would be the minimum required to assure that the IMF remained in a strong position to meet prospective needs. Even a 50 percent increase will do little more than slow the decline in the relative size of IMF resources into the mid-1980's. In fact, most developing countries and some OECD members, fearing growing world economic uncertainties, pressed hard for a much larger increase.

"Events since completion of the quota review have strengthened the justification for the quota increase. Oil market developments have again radically altered economic prospects and have drawn the world into a pattern of payments imbalances reminiscent of that following the 1973-74 oil price increase. Countries must, and will, begin adjusting to these developments, and that will cause further changes in world balance of payments patterns and financing needs that cannot be foreseen. Moreover, events in Iran and Afghanistan have created a climate of concern and uncertainty that makes it all the more important to have in place the institutional means for assuring monetary stability and for providing advice and financial support to countries facing the growing economic and financial problems of the 1980s.

"At present, the IMF has usable quota resources estimated at about SDR 10 billion, plus SDRs held by the IMF totaling approximately SDR 1.1 billion. These resources are supplemented by amounts remaining available under the General Arrangements to Borrow equal to SDR 5.7 billion, and SDR 7.4 billion under the Supplementary Financing Facility which is scheduled to end in early 1981 or 1982.

Financing Needs Will Intensify in the Future

"Severe payments imbalances and consequent financing needs will very likely intensify during the next several years. At present, in broad terms, we anticipate an OPEC current account surplus of about \$120 billion in 1980 and current account deficits, after official transfers, of about \$70 and \$50 billion for the OECD and LDC group respectively. A world environment of slower growth, high inflation, heightened caution in the private financial sector, and the continuing threat of energy supply disruptions will simultaneously make the financing of external deficits and the adjustment of national economies to reduce those deficits more difficult.

The Private Financial Sector

"The private financial sector will again be called upon to meet the bulk of expanding international financing needs, and we believe that the private banking system, including the U.S. banks, can and will continue to participate in the

recycling process without incurring undue risk. At the same time, our regulatory authorities will be monitoring developments closely to help insure that the banks' loans are sound and that excessive concentrations do not arise. Moreover, flows of official development assistance will continue to rise. But we have to anticipate that a number of countries, developed and developing, will encounter growing financial difficulties, and pressures to adjust and bring their external positions closer into line with sustainable flows of financing. This will result in increased demands for official balance of payments financing, and early in 1980, the IMF is already processing requests for balance of payments financing that far exceed the total drawn in 1979 as a whole.

The IMF Must Have Adequate Resources

"The IMF must have adequate resources – and this means adequate quotas – to encourage countries to adjust in an appropriate way, rather than adopt trade and capital restrictions, aggressive exchange rate policies, or unduly restrictive domestic measures in order to reduce their financing needs. Such restrictive measures could have serious implications for the entire world economy and the prosperity of all nations, as well as for the economy of the country introducing them. We must not forget the lessons of the 1930's, when serious economic troubles were worsened by ultimately self-defeating actions of nations trying individually to preserve employment and prosperity during times of economic distress and international tension. The impact on the United States today could especially harmful. Our economy has grown heavily reliant on world trade and financial flows. 1 An interdependent world brings real economic benefits, but also greater vulnerability to outside developments. Imported goods, from raw materials to high technology products, are integrated into all phases of U.S. economic activity. Export markets constitute a major source of demand for U.S. goods and services. One out of every seven U.S. manufacturing jobs and one out of every three acres of U.S. agricultural land produce for export. For the U.S. economy specifically and the world economy generally, prosperity is dependent on a well-functioning international financial system.

The IMF's Resources Must be Sufficient to Meet Its Mission

"Uncertainties about the magnitude, distribution, and financing of payments imbalances over the next few years make it impossible to project the precise level of IMF resources that will be used during the next five years. But we must assure ourselves that the IMF's resources are sufficient to enable it to meet its important responsibilities – sufficient as measured against historic standards and current trends, and sufficient against a realistic appreciation of the dangers we face as we enter a new decade." (Address, *Department of the Treasury News*, Washington, D.C., March 10, 1980, pp. 1-7.)

The Manager of the International Monetary System

The IMF was designed to play a central role in defending the international monetary system. In order to fulfill this predetermined goal, the IMF will have to take on a bigger role. The elite, as witnessed from preceding statements are desirous that the IMF play the role as "manager" of the international system.

Part IV – Evolution of a Global Central Bank

The ultimate destiny of the IMF is to become a global central bank. While the elite know this very well, they rarely admit it because of the ramifications. If the IMF were a global central bank with powers to create and control international liquidity and with the power to control the activities of national central banks it would be the most powerful organization in the world. Individual nation-states and their central banks would be part of a Federal Reserve System of the world. Of course, that is exactly what the power elites are attempting to set up. It is running into one gigantic obstacle – the political and economic sovereignty of the nation-state.

Gradually Integrating the World

The elite power team – the international bankers, investment bankers, and corporate directors – felt that in order to position the IMF into such a role it would be necessary to gradually integrate the world. Dr. M. W. Holtrop, former President of DeNederlandsche Bank, pointed out the role the IMF was to play in integrating the world when he remarked:

"I do not doubt that, when speaking of 'economic integration' all of you, like I myself, are thinking immediately of the type of regional economic integration as represented by the European Economic Community and the European Free Trade Area. More specifically we will probably think of the E.E.C., since it has the broader objectives. The essence of economic unions of the E.E.C. type is the creation of one single market in which there should be no impediment to the free movement of goods and services, capital and persons, and within which no discrimination on the basis of nationality should ever be allowed.

Another Form of Economic Integration

"It is well to remember, however, that there exists still another form of integration. It is implied in the membership of the International Monetary Fund, but which countries submit themselves to an international payments system based on fixed rates of exchange, and more specifically in the membership of the group of countries who have declared their currencies convertible in the sense of Article VIII of the Fund Agreement. It is true that this membership does not create a single market since it does not do away with import duties but, in combination with the rules of G.A.T.T., it does create a non-discriminatory area in which the free

movement of goods and services and, to a certain extent, also of capital, shall not be impeded by foreign exchange restrictions and quantitative controls without consent of a common authority." (Dr. M. W. Holtrop, "Central Banking and Economic Integration", Lecture, The Per Jacobson Foundation, Washington, D.C., May 16, 1968, p. 11.)

The IMF has done incredibly well in integrating the world into one economic unit. Over 160 nations adhere to its rules and policies. The elite feel it is now time to give the IMF additional power. As noted, it has been evolving into a global central bank. It has proceeded cautiously in order not to awaken the citizens of various nations as to what was really happening. It is obvious that the nations of the earth would never have accepted a global bank if the elite announced that this was their goal in 1944. As each year passes, the IMF and other global economic institutions such as the OECD, BIS, IBRD and WTO are given greater power over the nation-states.

The IMF Will Eventually Become a Global Central Bank

The world is being prepared – psychologically, economically, governmentally and socially – for life in a New Imperial System managed by the global elite.

In 1977, when H. Johannes Witteveen was Managing Director of the IMF, A. F. Ehrbar wrote:

"...Witteveen and the staff...are now solidly committed to the idea that the [IMF] should eventually become a global central bank – one that would be able to create and eliminate international liquidity and would have control over some of the activities of national central banks.

The First Step Toward Creation of a World Central Bank

"The critical first step toward the objective would be the crowning of the IMF's special drawing right (SDR) as the world's principal reserve asset. SDR's are units of account, currently worth about \$1.16, that the Fund issues to members as reserve assets. Countries can use them to settle accounts among themselves or with the Fund; the only form of 'conditionality' is a requirement that members pay interest on SDR's they have used.

"Any such exaltation of SDR's would indeed boost the power of the IMF, but it is less obvious that it would accomplish much in the way of improving the stability of international finances. Indeed, the Fund's efforts to push SDR's has resulted in staff proposals that are curiously inconsistent with the official emphasis on adjustment and price stability. In April, for instance, Witteveen proposed to the Interim Committee that the Fund issue five billion to eight billion new SDR's per year over the next three years. That would nearly triple the number outstanding, and would certainly increase the importance of SDR's relative to other reserve

assets (e.g., dollars). But implementing the proposal would increase world reserves by 7 to 11 percent, which seems wildly inflationary." (A. F. Ehrbar, "The IMF Lays Down the Law," *Fortune*, July 1977, pp. 110-111.)

Of course, Mr. Witteveen and all Managing Directors of global economic institutions are aware of the long-range goals of the power elite and they fully sustain them, at least their speeches and actions indicate such support.

Toward a World Central Bank

In 1970, William McChesney Martin, former Chairman of the Federal Reserve Board, prepared a lengthy paper entitled, "Toward a World Central Bank?" The paper was prepared for delivery at the 7th Lecture of the Per Jacobsson Foundation at Basle, Switzerland. Martin gave introductory remarks and a summary of his paper. Commentaries were then made by Karl Blessing, former President of Deutsche Bundesbank; Harry G. Johnson, then professor of economics at both the London School of Economics and Political Science and the University of Chicago; and Alfredo Machado Gomez, former President of The Banco Central de Venezuela.

A Document That Will Revolutionize the World

At the conclusion of the meeting, W. Randolph Burgess, President of the Per Jacobsson Foundation stated, "this document, as it is published, will have careful study and will undoubtedly affect the monetary policies of the countries of the world." (William McChesney Martin, "Toward a World Central Bank?", The Per Jacobsson Foundation, Washington, D.C. September 14, 1970, p. 52.)

In the opening remarks of this remarkably revealing document, W. Randolph Burgess stated:

"Turning now to the adventurous subject of today's conference, we are reminded that this is an anniversary year in the development of monetary cooperation. The BIS began its operations 40 years ago. While its birth was 'a direct product of the Young Plan for a German settlement, its paternity really goes back to earlier, less formal beginnings in central bank cooperation under the leadership of Montagu Norman of the Bank of England, and my old associate and chief, Benjamin Strong of the New York Federal Reserve Bank, who, working with the heads of other central banks, gradually developed the principle of personal contact. I once heard Benjamin Strong say to Montagu Norman, 'Wouldn't it be useful if we could have a chateau in France where the heads of central banks could meet and just talk'? The BIS isn't quite a chateau in France, but it has served that purpose admirably.

Present at the Creation of the Plans for a World Central Bank

"Those events of 1929 and 1930 are vivid in my personal memory, for, if you forgive me, I was 'present at the creation' – using the name of Dean Acheson's recent book. Let me remind you of what happened – Owen D. Young, who was the chairman of that conference in early 1929 in Paris, when the negotiation for a German settlement was completely stalled, asked four of us to draw up a plan for an international bank – as a mechanism of reparations transfer. The four included Walter Stewart, advisor to the Governor of the Bank of England; Pierre Quesney, then of the Bank of France and later General Manager of the BIS; Shepherd Morgan, deputy to the Agent General for Reparations Payments; and myself.

The Bank for International Settlements

"The plan that we labored over and drew up in outline did, in fact, help in reaching an agreement on the settlement known as the Young Plan. But, perhaps more important, the Bank for International Settlements, so created, has, over these 40 years, through peace and war, through prosperity and depression, gone on and developed that warmth of personal acquaintance among financial leaders that has been beyond price as a background and stimulus for valuable specific forms of co-operation.

The Next Giant Step Toward the Creation of a World Central Bank was the Creation of the IMF

"Of course, the next giant step forward was the formation of the International Monetary Fund, and it is very appropriate that Per Jacobsson, who did so much to develop the institution here, should then have moved on to that other second step – the IMF, and that this year the Fund is celebrating its 25th birthday.

"So today, against this background, we take a flight into the future under the pilotage of four men who have played roles in recent history which make them suitable guides for the future. (William McChesney Martin, "Toward A World Central Bank?", The Per Jacobsson Foundation, Washington, D.C., September 14, 1970, pp. 2-3.)

A Carefully Laid Plan for Managing the World Economic and Financial System

The elite financial oligarchies the United States, Europe and Asia have crafted a tremendously ambitious plan for managing the world economy. These powerful groups have acquired the assistance of academic, business and governmental officials to further their global plans for a New Imperial System. The truly powerful elites never assume governmental positions either at the nation or international level. They use these positions as "rewards" for faithful service for the sub-elite.

The IMF and the BIS Perform the Functions of a World Central Bank

In his introductory and summary remarks, William McChesney Martin states:

"...[T]he two international institutions with which Per Jacobsson was associated, the International Monetary Fund and the Bank for International Settlements, have already come to perform many of the functions of an emerging world central bank....

"I think that the growing international monetary cooperation that has been centered in the International Monetary Fund and the Bank for International Settlements and the Organization of Economic Cooperation and Development owes a great deal to the dedication of many men. These three institutions have engaged in five main types of activity that would be associated with, in some way, a world central bank: advice to individual countries so that constructive influence is provided from outside for the correction of balance of payments difficulties; multilateral consideration so that proposed national policy actions are examined for their effects on other countries; administration of codes of good behavior accepted and adhered to by sovereign states in the fields of exchange rate practices and of restrictions on trade and capital movements; financial assistance so that countries with external payments difficulties can be provided temporary help; and reserve creation to ensure an orderly growth of official reserves.

A Powerful Force for Influencing the Behavior of the Nation-States

"When we look at their work as a whole, we can recognize that these institutions have become a force influencing the behavior of individual nations, through both moral suasion and the provision of credit, creating international money, and attempting to reconcile the conflicting objectives of countries in ways that benefit the international community as a whole. These achievements represent a decisive advance in international cooperation among the countries of the free world....

The Most Dramatic Development in the Evolution of a World Central Bank

"Perhaps the most dramatic development to date in the process of evolution toward a world central bank is the agreement to create Special Drawing Rights. Under it, international money is now being created deliberately and systematically and through a process of multilateral decision making. In this aspect, the Fund is serving as a central bank to the monetary authorities of the countries that make up its membership. The SDR mechanism, as presently viewed, does not attempt to lean against the winds of inflation or deflation, but to achieve a relatively steady rate of growth of world reserves. It can help to provide a basic and steady environment for noninflationary growth of the world economy, leaving to other forces the function of financial stabilization. But we can also look ahead to see that the stabilization function could be added to the SDR mechanism. The Fund could

try to promote stabilization through somewhat greater variation in the rate of growth of world reserves over time as a means of offsetting cyclical tendencies in the world economy....

Greater Harmonization of Monetary and Economy Policies Among Nation-States

"Now where do we go from here in this emerging world central bank atmosphere? I think that there are a number of things that could be considered. I have listed here consolidation of the several reserve assets now in use into a single asset; we should continue to study this idea. Multilateral supervision of the Euro-currency and Euro-bond markets? They are totally unregulated today and it seems to me that in the interest of everybody there should be some supervision and regulation of those markets. Greater harmonization of monetary and fiscal policies among countries in general, and among regional groupings, such as the European communities in particular, could also be of universal benefit.

Accepting the Economic and Monetary Constraints of Our Interdependent World Economy

"When it comes to organization, I don't think it is terribly important whether we can agree today upon the institutional outlines of an ideal central bank. I think, on the contrary, that what we need is a willingness on the part of nations to accept the economic and monetary constraints of our interdependent world economy. If we remain committed to international cooperation, we will be able to work out the procedures for carrying it out and assuring its proper evolution. *I have long felt that there should be a federal reserve system in Europe and I think that some day it will come.* I think that eventually you will see groupings around the world in one form or another, and that probably there will be some umbrella, whether it is the Monetary Fund or whatever.

Tremendous Progress Has Been Made in International Cooperation in the Financial Sector

"I think we have come a long way in international cooperation in financial affairs in the past generation. When I think of the objections that I heard a number of years ago to the thought of a world central bank or to the type of international cooperation that has developed, it amazes me. A general acceptance has come about, and it seems to me that we are not being overly optimistic to believe that we can go forward. How long this will take, or how much give and take will be required, I am not endeavoring to say. I think that the step from the Fund's Articles of Agreement in 1945 to the ratification of the Special Drawing Rights mechanism in 1969 is an historic one. Because of these gains we certainly have a right to be optimistic that we can make further progress toward a world central banking function during the 1970s.

The Art of Central Banking is One of the keystones in the Arch of Our Civilization

"I started my prepared paper by pointing out that central banking is a relatively modern art. I worked through all the texts on central banking, Kisch, and Elkin, Hawtrey, DeKock, Beckhart, Willis, Robertson, and all the rest of them., and I decided that I would stick with the word 'art.' Central banking is a relatively modern art, even when you remember that Governor Asbrink invited us to Stockholm to celebrate the 300th anniversary of the Swedish National Bank, that the Bank of England began in 1694, the Bank of France in 1800, and the Reichsbank, if I am correct, in 1875. They are very modern, and when you come to the Federal Reserve System in 1913 and the Bank of Canada in 1935, you realize how modern the art is. The art of central banking in my judgment, has become one of the keystones in the arch of our civilization and, like money, and the use of money, it is constantly evolving out of the wellsprings of human needs. In the world we are living in today there can be little question that it will be very desirable, helpful, and important to have a strong world central bank to act as the restraining conscience that I am talking about on a multilateral basis. Some of this is being done now in the Fund, some of its being done in the BIS, some of it is being done in the OECD. Perhaps all of these activities will be brought together in some form some day. I know most of the objections that can be raised to the concept of a world central bank – that it is visionary or impossible of achievement. I also know the value of having different views and independent actions by differing countries and the desirability of decentralization. I have heard all of these arguments. Nevertheless I believe that we are on an inevitable course that will lead us to some cooperative form of world central bank. (Martin, pp. 6-7, 10-12.)

Toward a World Central Bank

The text of Mr. Martin's paper is reprinted in the following pages. Its importance is obvious. Rarely have documents such as this reached the public. In fact, it should be pointed out that the public-at-large is probably totally unaware that it was ever written. Martin stated that:

"Central banking is a relatively modern art which has become one of the keystones in the arch of our civilization. Like money, and the use of money, it is constantly evolving out of the wellsprings of human need. In the world of today, a strong world central bank is becoming more and more essential to support orderly economic growth in a constructive international context.

"My purpose in this lecture is twofold: (1) to spell out and substantiate the thesis that some of the functions of a world central bank are already being performed, and (2) to examine some of the ways in which further evolution toward a world central bank may occur.

Monetary and Economic Cooperation Among Nations

"Economic cooperation among nations, and especially monetary cooperation, has made enormous strides in the past generation. If we examine what such growing international cooperation means, we shall see that it may be characterized as evolution toward a world central bank. Where this evolution will ultimately lead – particularly in terms of specific institutional development – is not a question that I shall try to answer today.

The Dangers of Economic Nationalism

"The 1930's demonstrated all too well the dangers of economic nationalism and taught the lesson of economic interdependence – that each nation's prosperity depends upon the prosperity of its neighbors. We learned this lesson from bitter experience, involving competitive depreciation and other beggar-you-neighbor policies with which nations attempted to rid themselves of their own ills by exporting them to their trade partners.

Nations Must Act Together

"Thus it has become widely accepted that nations can prosper only if they prosper together. And to prosper together, nations must act together to create an economic environment conducive to their mutual welfare.

Nations Must Accept Limitations on Their Freedoms

"No community can thrive without some constraints on the behavior of its members. To prosper together nations must accept some eliminations on their freedom of action. Acceptance of such constraints springs from enlightened self-interest: from the awareness that, in an interdependent world, nations must take account of the feedback of their own behavior, since this behavior affects the actions of others.

The Foundation of International Economic Cooperation

"It is the awareness of this interdependence and the willingness of nations to permit it to influence their policies that constitute the basis of international economic cooperation. Implementation of such cooperative behavior is, of course, centered in the international institutions that have become so prominent in the past generation: the International Monetary Fund, the Organization for Economic Cooperation and Development, and the Bank for International Settlements.

The Role and Influence of the IMF

"The role and influence of the International Monetary Fund have become increasingly evident. It is appropriate for us to note that during the incumbency of

Per Jacobsson as Managing Director, the Fund's activities increased markedly. The various bodies of the OECD have also blossomed in the past decade as forums for the implementation of international cooperation. And with the advent of currency convertibility in Europe and Japan and the creation of inter-central bank credit arrangements designed to help prevent disorder in foreign exchange markets, the BIS has achieved much greater prominence in recent years.

The IMF, BIS and OECD Perform the Functions of a World Central Bank

"If we ask ourselves what these international bodies accomplish, we shall see that they perform what are essentially world central banking functions. The interests of the world community as a whole are brought to bear on the policies of individual nations. If the influence is successful – and I don't suggest that it always is – national policies will reflect it and nations will act differently from the way they otherwise would have acted. International cooperation exerts an influence on different parts of the world economy in order to reconcile divergent tendencies and improve the well-being of the whole.

The Five Main Areas of Activity of the IMF, OECD and BIS

"The international institutions to which I have referred have been engaged in five main types of activity:

(1) giving advice to particular countries with balance of payments problems (whether of the deficit or surplus kind) with a view to aiding in the solution of those problems; this almost invariably involves consideration of the fiscal and monetary policies of the country under consideration;

(2) framing such policy advice on a basis that would produce optimum results, not only for the particular country whose problems were under review but for other countries that would be affected by the correction of the problems; in the process, the representatives of member countries find themselves viewing and explaining their own objectives against the objectives of other countries;

(3) administering internationally-accepted codes of behavior regarding exchange practices, balance of payments restrictions (and, in the case of the General Agreement on Tariffs and Trade, trade practices);

(4) providing financial assistance to help countries ride out periods of payments difficulty; and,

(5) providing means to assure the necessary growth of official reserves.

"Let me now give some specific examples of the ways in which the functions that might be performed by a world central bank have been performed, at least in part, by existing institutions.

The International Monetary Fund

"The International Monetary Fund is the international institution with the widest membership and with the clearest potential for evolution toward a world central bank. Even before the SDR amendment to the Articles of Agreement, the Fund was performing a central banking function. It was exercising an influence over the economic policies of its member nations, in part a complement to its lending to them and in part independently of its lending.

The IMF Has a Unique Purpose

"Members of the Fund that draw on their credit tranches are required to meet certain policy standards laid down by the Fund. These standards are adapted to the problem of the particular country in balance of payments difficulty and in need of external credit. Of course, any bank is likely to look to the future performance of its borrowers if only to safeguard the quality of its assets. But the Fund clearly has a purpose beyond normal banking prudence. The Fund encourages a borrowing member to adopt policies that will correct its balance of payments problem not by any means available but in ways that are compatible with achievement of the economic objectives of other countries as well. This often, indeed usually, involves focusing attention on the inflationary potential, domestically and internationally, of economic developments in individual countries. Thus the Fund represents the interests of the entire community when it uses its power to extend credit as a level to influence the policies of its individual members.

The IMF Exerts Influence on Nations

"It is noteworthy that the Fund exerts an influence on the policies and practices of its members quite apart from occasions when its members are seeking to borrow from it. The Fund is charged with enforcing the Articles of Agreement, which impose specific obligations on members. But, beyond this, and also beyond the consultations that member countries are required to hold with the Fund when they maintain exchange restrictions, the practice of annual consultations has developed between the Fund and its members even when not required by the Articles

The IMF Acts in Behalf of the International Community

"Here we have an example of the Fund acting in behalf of the international community as a whole as it reviews the past and prospective policies of its members and passes judgment on them on the basis of their contribution to the achievement of the purposes of the Fund – which express the shared economic and financial objectives of the entire Fund membership.

"The Fund's influence over the larger, industrialized countries has been strengthened by the development of two-way relationships between the Fund as a

whole and a group of its larger members known as the Group of Ten. These countries, acting together, have not only served as a supplemental source of resources when the IMF faced needs for funds in meeting the drawings of major countries, but it has also served as a forum within which a consensus could be reached among these leading countries on some issues of broader importance for the Fund as a whole – issues which required the support of the major countries if the objectives of the IMF were to be fulfilled effectively.

"It is clear that the various avenues by which the Fund influences the policies of its members place the Fund in the position of exercising a central banking function – that of influencing the parts to improve the well-being of the whole.

The Organization for Economic Cooperation and Development

"A similar function is performed elsewhere. The past decade has brought a considerable development of consultation processes in the Organization for Economic Cooperation and Development. The Economic Policy Committee and Working Party Three of that organization have been the forums for close consultations among senior officials of treasuries, central banks, and economic ministries about the economic and financial policies of the industrialized countries. I know from personal experience and from the reports of my former associates at the Federal Reserve Board that economic cooperation has made marked advances as the result of these consultations.

Shaping the Policies of the Nations

"Striking examples could be cited of ways in which individual countries' policies have been shaped as a result of examination and discussion in these forums. It has been applied to countries that were experiencing recession and to those experiencing inflation, to countries in chronic surplus as well as those in chronic deficit. In all cases the purpose is to improve the performance of the individual country in ways that will also serve the well-being of others.

Examining the Economic Policies of the Nation-States

"A related function performed by these bodies of the OECD is to examine the policy objectives of the member countries for compatibility with each other and with the welfare of the rest of the world. Given the high degree of interdependence that prevails, no nation can expect to achieve its policy objectives without due regard to the actions of its neighbors and trade partners. This applies to objectives regarding economic growth, price stability, the structure of the balance of payments, gains in reserves, and still others. To test the consistency of such objectives – both from the national and international viewpoint – is a useful and significant function, one that exemplifies vividly the advancement of the degree of economic cooperation and the way in which such cooperation, by influencing countries to modify their policies so as to make them more consistent with the

pursuit of the welfare of the entire community, begins to resemble one of the functions of a world central bank.

The Bank for International Settlements

"Another example of the processes I have been discussing is provided by the consultations and cooperation arrangements that are associated with the regular meetings of central bank governors here at the Bank for International Settlements. Again there is a dual process: on the one hand, the examination of individual countries and, where problems exist, an effort to influence policies so as to bring them more into harmony with the well-being of others; on the other hand, the development and operation of multilateral financial arrangements that benefit the entire group. Under this latter heading some of the vitally important reciprocal credit facilities – so called swap lines – among central banks, through which some \$33 billion of short-term credit has been extended and repaid over the past eight years; along with the special arrangements to stabilize sterling balances and occasional credit packages to assist an individual country in its stabilization efforts. These examples of successful cooperation among central banks provide further substantiation of my thesis that we have witnessed in recent years a growing awareness of interdependence and a willingness to act in ways that benefit the community as a whole.

Per Jacobson Expressed Doubts about the Wisdom of Having a Global Currency without Global Government

"I might note at this point that the man whose memory we honor, Per Jacobson, was intimately associated with two of the institutions I have just been discussing. Although Per Jacobson expressed doubts about the wisdom and practicality of a common currency in advance of common government, he was a strong believer in the benefits of international cooperation. I would like to think that he would support much of the thesis I am putting before you today.

Special Drawing Rights

"I move on now to speak about the most dramatic development to date in the process of evolution toward a world central bank. This is the agreement to create Special Drawing Rights.

"The SDR mechanism provides a direct and clear-cut central banking function and on a basis as world-wide as the membership of the International Monetary Fund. International money is now being created deliberately and systematically and as the result of multilateral decision. Such international money, created by the Fund, constitutes official reserve assets for those who hold it. In this respect, therefore, the Fund is serving directly as a central bank to the monetary authorities of the countries that make up this membership.

Evolution of SDRs

"The Fund evolved toward this function gradually. For many years 'reserve positions in the Fund' – that is, gold tranche and super-gold tranche positions – were usable by members virtually on an automatic basis and came to be regarded as a part of official reserves. Thus, even before SDRs came into existence at the beginning of this year, a claim on the Fund served as international money.

"The further evolution that occurred this year, after several years of study and negotiations, had to do with the manner in which such international money comes to be created. Reserve positions in the Fund are brought into existence in two ways. The first is the result of gold payments to the Fund by members whose quotas are being increased; in this case, members simply exchanged one reserve asset – gold – for another – gold tranche positions. The second is the result of the use of a member's currency in drawings on the Fund by other members; in this case, new reserves are created as the counterpart and by-product of IMF lending operations. The extent to which gold and super-gold tranche positions come into existence, in this second case, depends on the extent to which members use their credit tranches – that is the extent to which they borrow from the Fund. Thus the Fund itself has no direct control over the magnitude of reserve creation.

A Deliberate and Conscious Process to Strengthen the IMF

The big step forward under SDRs is that reserve creation in the Fund became a deliberate, conscious process. The decision as to how to create is made on the basis of a careful judgement as to the need for reserves by the world community and on the basis of a recognition that world payments equilibrium requires an adequately-growing supply of reserves.

"The evolution I have just described – whereby international money creation in the Fund as a by-product of Fund lending operations has been supplemented by a deliberate and direct process – is remarkably analogous to the historical evolution that occurred in the money creation process within individual countries. Even before central banks existed, commercial banks were, of course, creating money as a counterpart to their lending activities. But the extent of money creation was the uncontrolled result of the extent of bank lending. It was only with the development of central banking in all our countries that the rate of expansion of bank credit and money came to be deliberately regulated in the public interest.

Performing the Functions of a World Central Bank

"I have tried to spell out the various ways in which growing international cooperation can be thought of as performing the functions of a world central bank. To summarize, these functions are to make the behavior of the parts compatible with and conducive to the welfare of the whole – by influencing the behavior of individual nations through both moral suasion and the provision of credit, and by

creating international money in an amount sufficient to satisfy what would otherwise be the incompatible objectives of individual units with regard to the accumulation of reserves.

The Problem of Sovereignty

"The progress I have been describing originated between and has been accepted and welcomed by sovereign states. One often hears it said that the existence of a world central bank is inconsistent with the maintenance of national sovereignty. So it is, if by sovereignty one means what has traditionally been implied by that phrase – the unfettered right of national governments to act in whatever way they may choose in economic financial, or defense matters. But I do not believe that it is helpful to use this conception of sovereignty even as a point of departure. For what we have been witnessing has been a willingness of nations, by the exercise of their sovereign rights, to recognize that the national interest can no longer be pursued in isolation but is dependent on cooperative action in deference to the common good. It has become more and more clear that this involves no loss of sovereignty but rather a pooling of sovereignty. It could even be said that what were once the principal objectives of sovereign powers – the maintenance of economic prosperity and of effective defense – can now only be achieved by the acceptance of cooperative international arrangements which by their very nature impose limitations on the sovereignty of all the nations concerned. The increasingly clear recognition of this new reality in international affairs has lone made possible the developments that I have been describing. Further evolution along the path toward a world central bank will require nations to accept further limitations on their freedom of independent action, in their own and others' interest.

The World at Its Present Stage of Evolution

"The very fact that, at the present stage of evolution, the international monetary system is made up of nations that still retain a substantial measure of their traditional sovereign powers means that the world central banking function has a special responsibility that normally does not trouble the central bank of an individual country. Within a country, payments equilibrium among its various regions comes about more or less automatically. While many of our nations have been faced with regional economic problems, we do not regard these as being primarily balance of payments problems. But, internationally, a system of sovereign states is, as we all know, subject to payments imbalances that can create instability and disruption. Thus a world central bank would have this additional function – to facilitate the adjustment process and promote this additional function – to facilitate the adjustment process and promote payments equilibrium.

Exchange Rate Flexibility

"In the past year, the Fund has been undertaking a study of limited exchange rate flexibility as one means of improving the balance of payments adjustment

process. I am confident that no changes in exchange rate practices will develop out of this effort that would be inconsistent with – or would weaken – the international cooperation that we are considering today. The Executive Directors have presented a preliminary report to the Governors on this whole subject which has just been made public and which will be on the agenda of the Copenhagen meeting.

Where Do We Go From Here?

"We may now ask ourselves about the prospects for further development along the lines I have been sketching. What is the potential and what are the prospects of the evolution toward a world central bank?

"Perhaps the best way to pursue this question is to consider the functions of a full-fledged central bank and to ask, in each case, whether and how the function could be performed in an international setting.

Money-Creating Function

"Let us begin with the money-creating function of a central bank. We have already taken note of the SDR mechanism and observed that the International Monetary Fund is now in the business of creating international money – official reserves – on a regular and systematic basis. Perhaps we can view the IMF not merely as a creator of one type of international reserve asset but also as a regulator of the total volume of reserves.

"Clearly the Fund is not the only source of new reserve assets. Some newly-mined gold may come into monetary reserves under the two-tier system, though the amounts are not expected to be large. Reserve assets can be created as the result of inter-central bank loans. And, as we all know, expansion in the officially-held liabilities of reserve currency countries (whether or not an official settlements deficit exists) adds to world reserves.

"No doubt the Fund will take account of the prospective magnitude of these other forms of reserve creation in deciding on how much of SDRs to create in each basic period. In that sense, the Fund becomes a regulator of the volume of total world reserves. Beyond that, the Fund will continue to exert influence upon the behavior of reserve-creating countries.

U.S. Balance of Payments

"In this connection, I must digress briefly to say a few words about the U.S. balance of payments, since this has been a major generator of world reserves in the past. It is my conviction that in adhering to – and in fact, taking the leadership in promoting – the SDR program, the United States was accepting the proposition that its balance of payments should not in the future be a major source of growth in world reserves. This proposition has several corollaries:

1. The United States must make every effort to keep its payments position more or less in balance. Whether this requires a zero deficit on the official settlements basis need not detain us now. And certainly we have to expect swings from one period to another. But the main point is that the United States must have, along with its domestic economic objectives, a balance of payments goal and a set of policies to achieve it.

2. Such a goal is achievable only if other countries also adopt reasonable balance of payments goals and take actions to attain them. In particular, if other countries do not take measures, including exchange rate adjustment where appropriate, to prevent persistent surpluses, the United States is unlikely to avoid deficits in its external accounts. To state this principle is in no way to relieve the United States of responsibility to adopt appropriate domestic and balance of payments policies – and particularly to prevent inflation. Proper policies on the part of the United States are a necessary but not a sufficient condition for the maintenance of equilibrium in the U.S. balance of payments.

3. There is another related condition for U.S. payments equilibrium. The amount of SDR creation must, while carefully limited, still be adequate to meet the need for growth in world reserves. If it is not, other countries may well follow policies to increase their reserve holdings of dollars, and these policies would make a deficit in U.S. payments almost inevitable no matter how well the United States manages its policies. I believe that this principle has been widely accepted, subtle and subject to misinterpretation because, on the surface, it appears as an excuse for the persistence of a U.S. deficit. It is subtle because an adequate volume of SDR creation does not assure proper U.S. policies, but, on the other hand, proper U.S. policies will not result in payments equilibrium without an adequate growth of world reserves.

SDR Mechanism – A Regulator

"Returning now to my main theme, we may regard the SDR mechanism in the Fund as a regulator, imprecise though it may be, of the growth of world reserves. This is truly a world central banking function – as distinct from the quite different task performed by the United States when it was the principal source of additions to world reserves.

"As presently viewed, this central banking function of the Fund aims at a relatively steady rate of growth of world reserves. The SDR mechanism does not attempt, in the short run, to lean against the winds of inflation or deflation. Rather, it provides a basic and steady environment for non-inflationary growth of the world economy, leaving to other forces the function of stabilization.

Stabilization

"Thus another path for further evolution, as we try to peer into the future, may be the addition of a stabilization function to the SDR mechanism. I believe it is accurate to say that the Fund does not perform this function now except by influencing the policies of individual countries. Presumably one way in which the Fund could try to promote stabilization would be to bring about somewhat greater variation in the rate of growth of world reserves over a period of time as a means of offsetting cyclical tendencies in the world economy. I do not wish to overemphasize this potential extension of the Fund's functions as a world central bank. It may well be that changes in the rate of growth of world reserves would have only minor short-run effects on national policies and therefore on world demand. But this is one possible path of further evolution.

Central Banks Serve as a Restraining Conscience

"Whether or not the SDR mechanism is adapted to serve short-run stabilization purposes, one should expect the evolving world central banking function to be concerned with stabilization. Traditionally, central banks serve as a restraining conscience on governments which may.... (cannot see copy) Such a conscience is needed on the international plane, too. I cannot emphasize this point too strongly because, in my judgment, this is a crucial contribution that central banks can make.

Consolidation of Reserve Assets

"We may take note also of the proposals that have been put forward for the consolidation of the several types of reserve assets into a single asset. Without going into the details or the implications of these proposals, we may observe that they fit in naturally with the evolution toward a world central bank. At some stage in that evolutionary process, it might be appropriate to consider whether greater international monetary stability would be promoted by a move toward a single reserve asset on the books of the Fund. In this plan, the members of the Fund would turn in their holdings of gold and reserve currencies, aside from transactions balances, and would receive in return a claim on the Fund similar to the SDR.

Other Central Banking Functions

"Another central bank function – that of the lender of last resort – may be said already to be performed by the International Monetary Fund. We have seen in recent years a sizable expansion in Fund drawings by both industrialized and developing countries when in payments deficit. And, over the years, the capacity of the Fund to meet these has grown, as quotas have been increased.

"Apart from their lending and money-creating activities, central banks are often concerned with regulating financial institutions and financial behavior. Once again, a counterpart already exists in the International Monetary Fund, which is charged

by the Articles of Agreement with administering the par value system and promoting exchange practices that are conducive to the economic welfare of the world community. The current discussions about limited flexibility of exchange rates are properly centered in the Fund and are entirely consistent with the view of the Fund that I have been putting forward.

Eurocurrency and Eurobond Markets

"Another aspect of the regulation of international financial behavior relates to the great international money and capital markets – the so-called Eurocurrency and Eurobond markets – that have developed so dramatically in recent years. At present there is little, if any, multilateral supervision of these markets. One need raise no doubts about the soundness of the claims that are created and exchanged in these markets to suggest that a case can be made for giving to an international institution some responsibility for supervising these markets. This too would be a natural development in the evolutionary process we are discussing.

Multinational Corporation

"A striking aspect of economic events since World War II has been the burgeoning of the multinational corporation. We are all trying to understand and foresee the many implications of this development. Of one thing I am sure: the basic forces that are leading to the startling growth of multinational corporations also point in the direction of every-closer cooperation among monetary authorities – that is, toward a world central bank.

Harmonization

"Finally, I come to the special problem that faces a *world* central bank – trying to promote harmonization of the policies of the member states and maintenance of payments equilibrium among them. We have seen that progress has been made in this area, and that a number of international institutions have been involved. A particular effort toward harmonization is presently being made in the European Economic Community. And there is every reason to expect similar efforts elsewhere. But this raises an intriguing and delicate organizational question.

"We have observed that the evolution to a world central banking function takes many forms and occurs not only in the Fund but in other international bodies also. It may turn out that the world central bank of the future will have a federal-type organization. Not all its activities need be centralized. Thus one can imagine various types of regional groupings of countries, geographical or according to stage of development, or both, for each of which certain central banking functions might be performed by a separate unit. I believe, however, that international monetary cooperation has benefited from avoidance of the proliferation of international bodies that has characterized other international fields.

'It is germane to ask whether or not we should hope to see, over the years, a more coordinated approach organizationally. Should we envisage that, instead of a dispersal of functions among the several bodies I have referred to, there would in time be a gradual incorporation of these activities under the umbrella of the International Monetary Fund? To state this issue even tentatively is to raise a host of questions. I have no reasons, or means, to try to answer these questions now.

"But if I am correct in discerning that we are in a process of evolution toward a world central bank, we must expect, at some stage in the future, to see somewhat greater organization coherence in the exercise of the world central banking function.

"The evolution we have been considering today is, of course, only one aspect of the growing interdependence of nations. It is quite proper that a Per Jacobsson lecture should focus on economic and, more particularly, monetary interdependence. We all know, and no one knew it better than Per Jacobsson, that in today's world peace among the major powers is no longer an option. It is an imperative for survival.

"Let me close by asserting my conviction that further evolution along the lines we have been examining today will enhance world political stability and with it the probability of peace. (Martin, pp. 13-27.)

Commentary on the Movement Toward World Central Bank

The commentaries made by Karl Blessing, Alfredo Machado Gomez and Harry G. Johnson are almost as revealing as the Martin text. They are as follows:

Commentaries

"Following Mr. Martin's oral presentation of his paper, the President of the Foundation called upon the members of the panel for their comments.

Dr. Karl Blessing:

"My distinguished friend, William McChesney Martin's splendid and comprehensive lecture has made it rather difficult for me to add very much of today's topic. He has very clearly pointed out what has been achieved in the past, he has explained that some of the functions of a world central bank are already being performed, and he has examined ways and means in which further evolution may occur....

Without International Cooperation the International Monetary System Would Have Collapsed

"It is entirely true that tremendous progress has been made both in central bank cooperation and in the activities of the BIS, and I also subscribe fully to what Mr. Martin has said about the IMF and the OECD. I would even go so far as to say that without this international cooperation the international monetary system would already have collapsed years ago. Nobody can deny that the present system has periodically run into crises, but equally nobody can deny that a lot has been achieved since the war. World trade has expanded faster than ever before, a high level of employment has been maintained, standards of living have improved considerably and international cooperation has always managed, in the end, to cope with the crises that have affected different currencies.

"We cannot, however, close our eyes to the fact that, despite the high level of international cooperation and despite the many devices developed in the last few years, the international monetary system is not in good shape. It is certainly true that nowadays nations recognize much more clearly than before that their national interests can no longer be pursued in isolation. But, when it comes to adjusting their economic and monetary policies to the outside world, they sometimes take a different attitude. Their domestic political situation often prevents them from taking corrective measures.

"We all know only too well the deficiencies of the present international monetary situation: balance of payments disequilibria and worldwide inflation. Part of those disequilibria has been removed lately by the British and French devaluations, together with the corrective measures taken in those countries, and by the German revaluation. But inflation is still going on and has even accelerated, and the U.S. balance of payments problem is still unsolved. The risks and uncertainties of the gold exchange standard, which has more and more become a dollar standard, still exist. The forces creating balance of payments disequilibria are still at work, price and cost disparities may re-emerge at any time, and the working of the adjustment process remains unsatisfactory.

The Powers of a Full Fledged World Central Bank

"International cooperation and the activities of the international monetary institutions could not prevent those deficiencies, and even a full-fledged world central bank could only do away with them if it had full power to compel national authorities to abandon inflationary policies and to apply a better balance of payments discipline. In spite of the willingness of nations to cooperate, there are still conflicting national interests and different targets aimed at by different governments. Some governments put more emphasis on full employment and growth, others on price stability. If countries were to comply with the unwritten rules of the gold standard, that is to say, if all countries were to exercise the same

measure of monetary discipline as they did under the gold standard, it might perhaps be possible to do away with the monetary troubles of our time and to make more progress towards a world central bank. Since the great crisis of the thirties, and after Keynes and the revolution he produced in the minds of the economists, countries now have a different philosophy from that which prevailed under the gold standard. They wish to manage their economies much more with a view to maintaining high employment and high rates of growth, or what they regard as such, than with a view to maintaining price stability and strict order in their balances of payments. Governments nowadays are always ready to resort to deficit spending even in a period of very mild stagnation or recession but they always refuse to apply vigorous fiscal policies in a boom period. The result is that prices go up from cycle to cycle. The worldwide creeping inflation that has prevailed for many years now is to a large extent the result of the philosophy that developed in the thirties and the practical behavior deriving from it after the war.

Restriction of National Sovereignty and Freedom of Action

"Without a fundamental change in philosophy and behavior there is not much hope either of improving the international monetary situation or of making more progress towards a world central bank. In theory one might imagine a world central bank being established or the IMF being transformed into such a bank, in order to enforce better monetary discipline. But this could only be done if national freedom of action and national sovereignty were restricted to an extent which, in my opinion, would not be accepted by national governments and parliaments at any rate not in the present state of affairs.

A World Central Bank Would Have to Manage the International Money Supply

"Let me now ask the question: what the task of a world central bank would be if one day it were to be established? The proposals for creating a world central bank or for transforming the IMF into such a bank usually rest upon an analogy drawn between a national central bank and a world central bank. The task of a national central bank is to manage monetary and credit policies, to supervise the domestic banking system, and to act as a lender of last resort, in other words, to manage the domestic money supply with a view to maintaining economic activity and at the same time to defending the internal and external value of the currency. Those who advocate a world central bank obviously think that such a bank would do for member countries and their central banks what each national central bank now does for its own country and its own banking system. A world central bank would therefore have to manage the international monetary system and the international money supply. It would operate as a lender of last resort for national central banks, if they were in need of foreign exchange to cover a balance of payments deficit.

A World Central Bank Would Exercise Strong Influence on Nation-States

"In doing so it would have to apply very strict lending rules and it would have to exercise a strong influence on the economic and financial behavior of the borrowing countries. Otherwise, the borrowing countries might fail to repay their debts later on because they did not achieve a balance of payments of payments surplus. The influence of a world central bank would certainly have to be far greater than the influence now exercised by the IMF when countries are drawing on the credit tranches. In fact it would have to lay much greater emphasis on price stability. Its lending rules would have to take into account the experience of the postwar period when the danger of excess demand and inflation was far greater than that of recession and unemployment. To reach intentional agreement on this issue would probably not be easy. But even if it were possible to agree on strict lending rules, the managing board of the world central bank would be put in a difficult position. Could or would the managing board cease to grant credits to a member country if its recommendations for corrective action were neglected for one reason or another? The experience of the Fund shows how difficult it is to bring countries to take corrective measures. Could a world central bank achieve more than the :Fund? And what would happen if the managing board came to the conclusion that the exchange rate of a certain currency was no longer realistic? The Fund has no power to propose a change in parity. If a world central bank were given this power, would its advice be followed?

Ending the Right of Sovereign Nations to Expand Their Money Supply

"One cannot neglect the fact that there are considerable differences between the operations of a national central bank and a world central bank. A national central bank operates within the sovereign authority of only one government. Even if it is independent it has to support the financial and economic policies of its government. A world central bank would operate as a creature of many sovereign governments. Its managing board would often hold views about the appropriate economic and financial policies in a particular country that were different from the views of the central bank and the government of the country concerned. Therefore, member countries' power to act on their own would have to be curtailed. Of course, even now a country has to take into account the repercussions of its actions on other countries. But there is considerable difference between a country adjusting individually on its own initiative to the outside world and a country adjusting on the recommendation of, or under pressures from, an international body. One might argue that the object of creating a world central bank is precisely to end the sovereign right of individual countries to expand their domestic money supply excessively and to permit inflationary developments. But the national political difficulties involved here are tremendous.

The Need for Nations to Transfer Their Sovereignty to a Central Bank

"Even in the Common Market, where a firm political desire to integrate exists, it is extremely difficult to coordinate and harmonize the different trends in member countries as regards total demand, prices and balances of payments. A monetary union of the Common Market countries as the ultimate aim can only be achieved if the member governments pool a great part of their sovereignty in some form of central authority. The customs union which has already been achieved is not sufficient for the attainment of that aim. Without a far-reaching coordination and harmonization in the economic, financial and credit fields no progress towards such a monetary union can be made. Of course, in theory one could establish a kind of Federal Reserve Bank of Europe right now, with full power to enforce integration and coordination as it is sometimes suggested. But such a procedure would involve too much political dynamite. It would probably not speed up the integration process and might even blow it up. It has therefore been agreed to proceed in stages by doing away step by step with national divergences in the economic, financial and credit fields. It is obvious, for instance, that deficits and surpluses in the national public budgets and the manner in which they are financed influence the monetary situation of the whole community and cannot be left entirely to the discretion of member countries. In the Common Market we have even come to the conclusion that a certain measure of understanding on wages and incomes policies is essential. In some countries excessive wage increases are the result of too high a level of total demand. This might be prevented in future by more vigorous fiscal and monetary policies. In other countries, however, excessive wage increases are mainly due to the aggressive behavior of trade unions or to wild-cat strikes. These problems can hardly be solved by fiscal and monetary measures alone. If wage explosions like those of the past should occur again in some Common Market countries, there is indeed not much hope for a monetary union.

The Role of a World Central Bank

"All these difficulties confronting us in the Common Market would also confront a world central bank. In some respects the difficulties might be less because the integration process would not have to go so far as in the Common Market. In other respects they would be even greater because a world central bank would have to deal not only with a restricted number of highly industrialized countries but also with a great number of less developed countries.

Management of International Liquidity

"Even the management of international liquidity involves great differences of opinion and wide areas where judgment is required, as we know from discussions of the past. The need for international liquidity depends very much upon the efficiency of the adjustment process. If exchange rates are realistic and the

disequilibria in the balances of payments are modest, less international liquidity should be needed than in the reverse case. This is why those who advocate greater monetary discipline do not favor large increases in liquidity, while countries in chronic deficit generally take the opposite view. My personal view is that we did not have too little but rather too much global international liquidity in the past. Otherwise creeping inflation in the world would not have been as persistent as it in fact was. Others seem to regard the creation of Special Drawing Rights at the rate of 9 1/2 billion dollars over the years 1970, 1971 and 1972 as insufficient. It has already been suggested that the amount of Special Drawing Rights to be created should be considerably increased for the years from 1973 onwards. In my opinion, international liquidity has been insufficient only for countries in chronic deficit, but by no means from a global point of view. In the future, it might be different. But for the time being we are suffering not from a shortage of international liquidity but from an inadequate adjustment process. Balance of payments deficits should be removed as soon as possible either by taking internal corrective measures or, if necessary, by altering the parity. They should not be facilitated and prolonged unduly by allowing the deficit countries to finance their deficits directly or indirectly for too long a period.

The Euro-Dollar Market Should be Supervised

"The concept of international liquidity has never been precise and is even less precise nowadays than it used to be. For instance, swap lines certainly represent potential international liquidity. The same is true of the credit lines in the Fund. And what about the Euro-dollar market? It would be wrong to relate international liquidity exclusively to official reserves. There is an interrelationship between commercial and central banks. Although the Euro-dollar market may not affect the total of international liquidity, it functions as a pool of international liquidity, whether private banks or central banks hold the dollar balances. What kind of liquidity, therefore, should the world central bank attempt to manage? It would certainly have to rationalize the whole reserve-creating process and to exert an influence upon the behavior of reserve-creating countries. Here, I am in complete agreement with Mr. Martin. I also agree with him that the Euro-dollar market should somehow be supervised, although I do not know how this could be achieved in practice.

An Important Step Toward Creation of a World Central Bank

"It has often been said that the creation of Special Drawing Rights was the most important step so far towards a world central bank. It is claimed that the Special Drawing Rights system provides the means for a collective control over the supply of international liquidity. This sounds very convincing in theory. I cannot as yet, however, see that it will fulfill this expectation as long as, in addition to special drawing rights, dollars and other forms of international liquidity are being created

in an uncontrolled manner. For the time being IMF cannot be regarded as a real regulator of the total volume of reserves.

The U.S. Federal Reserve System Possesses All the Attributes of a Supranational Bank

"There are also those who say that the international monetary system has been transformed into a dollar system in recent years, meaning that the Federal Reserve Board in Washington is already functioning as a kind of world central bank. So long as deficits in the balance of payments of the United States provide the rest of the world with additional liquidity, this conclusion is not wrong. In fact, in this respect the Fed possesses all the attributes of a supranational bank. But we have to bear in mind that the Fed is managing the American money supply with an eye to the liquidity needs, not of the world as a whole, but only or mainly to the needs of the American economy. The changes in dollar holdings outside the United States are the result, not of a deliberate planning of international liquidity, but of whatever the outcome of the United States balance of payments happens to be.

"I agree that an extreme shortage of international liquidity might provoke a demand for dollar reserves resulting in American balance of payments deficits. Such a situation does not however exist now. It seems to me that an improvement of American balance of payments would be highly desirable, as the creation of Special Drawing Rights together with reserve creation out of the American deficits might increase total reserves too much, not to mention that the outside world might hesitate to accept dollars deriving from the United States deficits indefinitely. The dollar standard is not yet an accomplished fact accepted by everybody.

"Let me sum up. Some of the functions of a world central bank are already being performed. In view of conflicting national interests and of the different aims countries still pursue it would, however, be difficult to reach international agreement on a bank operating as a top central bank of national central banks with full power to supervise the international monetary system, to be solely responsible for the systematic management of the international money supply, and to operate as a lender of last resort with the right to enforce monetary discipline on member countries. It would therefore be wise not to strive for utopian goals but to try to make less dramatic progress within the already existing machinery. The IMF as an already existing institution would be best qualified to streamline and improve the present system. Other international institutions like the BIS could render a useful service too.

"I cannot help feeling that in the past we have laid too much emphasis on technicalities and too little on monetary discipline. Even the most perfect institutions are of little value if there is monetary disorder in leading countries. No monetary system, however intelligently designed, can replace sound policies. Discipline begins at home. Let us try to put our own houses in order, let us try to

get rid of inflationary practices and let us try to improve the adjustment process and the balance of payments situation. For the time being this is more important than discussions about reserves and liquidity.

"Perhaps we should alter parities more often than in the past in order to remove disequilibria before they do harm to the whole system. I am not a friend of floating rates, however, nor am I in sympathy with the idea of an automatic system of 'crawling pegs,' as it would weaken, rather than strengthen, monetary discipline. A slight widening of the band around parity might be useful, but is certainly not a remedy for our problems.

The U.S. Dollar

"The dollar is still the leading currency of the world and the backbone of our monetary system, whether we like it or not. As things stand, a strong dollar means a strong system, and a weak dollar means a weak system, and a world central bank could hardly alter this state of affairs.

W. Randolph Burgess:

"Dr. Blessing, we are very grateful to you for setting forth the problems so emphatically and vigorously, and I hope the discussion will center round these issues that are now so clearly drawn.

"Now we turn to a different phase of the discussion, and we call on someone who will give us a picture from a Latin American point of view, a man who has been head of the Venezuelan Central Bank and now runs an important private bank, Dr. Alfredo Machado Gomez.

Alfredo Machado Gomez:

"After the wide-ranging review provided by Mr. Martin's illuminating and comprehensive speech and the timely and penetrating comments by Mr. Blessing there is not much left to discuss in this short period of time. I will, therefore, limit myself to some brief comments on the subject of the world central bank as it appears from – I was going to say the vantage point, but it is probably the disadvantage point of a developing country. My emphasis will be on certain aspects of the topic which bear on the specialized institutional requirements of the developing areas of the world.

The Requirements for a New World Economy

"I will first comment quickly on what seems to be the requirement for the kind of world that is developing under our eyes. Then I will briefly refer to the technical problem of the mechanism of adjustment of balance of payments in all developing

nations. Finally I will make some cursory remarks on some experience in monetary cooperation in Latin America.

"As to the world situation, I feel that, as the decade of the 1970s begins, we face a time of momentous change. Continuities as well as discontinuities of trends, to use Drucker's scheme of analysis, are likely to mold and shape our tomorrow, the closing decades of the 20th Century. These changes are, in the author's words, our 'recent future' – both already accomplished facts and challenges to come.

Major Changes Occurring in the World

"Major changes exist in four major areas. The explosion of the new technology; a new socio-political reality of pluralistic institutions; a new universe of knowledge; and, finally, and of utmost concern to us here today, the gradual change from an 'international' economy to a 'world' economy. It might be too fine a point to make this distinction, but it is one way of dramatizing the fact that different situations require different institutions.

The Concept of National Sovereignty is Now Secondary

"What are the major changes in the international economy? Imperceptibly, there has emerged a world economy. The world has become, in other words, one market, or as Drucker says "One global shopping center.' Yet this world economy lacks full-fledged world embracing economic organizations. Most of our present institutions were created in response to the needs of the system of national states, preserving to a great degree qualities of national sovereignty. Now institutions like the ones we are seeing coming to the fore, the Euro-dollar market and the multinational corporation, show general characteristics which correspond with a different stage of evolution, where nationality becomes secondary, and the institution operates to soften the concept of individual, political or geographical national sovereignty. The multinational corporation and the Euro-dollar market, which have come to the fore recently, are creating new tensions in various areas of the world.

The Activities of the Multinationals

"The peripheral countries of the world have been overcome by the sudden awareness of being subject to the tensions and distortions generated by some of the activities of the multinational corporations and by the Euro-dollar market, while the main industrial countries in the world have been affected by the re-emergence of the United States as a capital importing country through the Euro-dollar market. These two phenomena of the new world economy pose problems which are new and which are providing both challenges for the incipient world economy and new tools and solutions for the monetary authorities. There are thus both promising developments and threatening connotations in the advent of these two phenomena.

The World Economy is Taking Shape

"Today's world economy owes not too much to political imagination or decisions. It is coming into being despite political fragmentations. The demands, the appetites, the values are preceding even the creation of trading units. To a certain extent the European Common Market was a belated institutional acknowledgment of what had become the reality of economic perception and of consumer behavior a good many years earlier. The interaction between different nations' economies is growing closer and stronger. Mr. Martin and Mr. Blessing have emphasized this fact. Every country has always had to adjust its internal money and credit policies to the realities of its international economic position.

A World Central Bank Would Be Welcome and Is Desirable

"The cues we seem to get from this new world economy are that some international monetary institutions, some sort of central bank, if it is necessary, or expansion of the existing institutions, seems to be very welcome and desirable at the world level. As Mr. Blessing has observed, a purely technical decision-making process, which would be ideally suited for this kind of organization, would be politically very difficult to accept. Nevertheless, it still looms in the future as something desirable for the world as a whole.

"In one important respect the world economy and the management of the international monetary system is much better off now than it was during the interwar period. It is not yet fully satisfactory, as Mr. Blessing has emphasized and Mr. Martin indicated, but important strides have been made as a result of the institutional streamlining of the IMF, the BIS and the European Economic Community.

The Significance of a World Central Bank

"I would like now to move from the world approach and discuss very briefly the significance of a world central bank in the context of developing countries. The mutual benefits derived in the past from the coexistence of the IMF, the OECD, the EEC, the BIS, and Benelux, to mention only a few, amply demonstrate the complementarity, rather than incompatibility, of concentric or parallel regional or interzonal approaches to world-wide economic cooperation. This is likely to prove true in Latin America as well as in Europe and other parts of the world.

Lack of Interdependence Among Countries

"However, among the many technical differences between the monetary and exchange problems in developing areas as compared to industrialized regions, a most critical and probably the most typical is the lack of interconnection or interdependence amongst countries which importantly affects the balance of payments adjustment mechanism. This problem reflects some shortcomings

amongst the developing economies. But even from the viewpoint of monetary coordination, there are some important handicaps resulting from the typical situation of contrast in most of the developing economies where a developed side exists side by side with backward segments of the economy. The developed area is always the export sector: that sector has been developed under the impact of external forces which molded its shape according to the perspective and requirements of the international market. Its rate of development is determined by the importance of the external sector, and this rate of development is not usually consistent with the needs of the internal economy of the country.

"Suffice to say that these peculiar characteristics complicate the adjustment process in developing countries.

The Recommendation of OECD's Working Group

"Monetary authorities within the Third World have followed with great interest, attention and hopes, the deliberations and conclusions reached by OECD's Working Group No. 3. It is difficult not to agree with most of the conclusions reached in their report. Nevertheless, in my opinion quite a number of those recommendations could not, for several reasons, be applied successfully to the great majority of the developing nations.

"From a structural viewpoint, there are flaws and weaknesses which affect adversely the conditions of monetary stability and convertibility, international capital inflows, effectiveness in the application of fiscal and monetary policies, labor force mobility and capital market organization.

"The adjustment and coordinating mechanism, so much influenced by the level of international reserves and its resilience, functions poorly, if at all, in most developing countries. This is due to the limited composition of export items, mainly primary products, which results in a narrow exposure or contact with the rest of the world and affects downward the level of reserves as a result of a deterioration of the terms of trade. So far, this is all very much commonplace, but I want to get to a point which we consider is slightly new, namely, that due to that reserve situation, the developing countries lack the shock-absorbing device to reconcile internal monetary stability with external development.

External and Internal Pressures in Developing Countries

"The difference between external and internal pressures often exceeds the cushioning capacity of the reserves, and there are then only two alternatives: either to stop convertibility and stability of exchange rates; or to apply deflationary policies which are socially undesirable and politically dangerous in areas where already standards of living are very low.

"The argument that developing countries do not exercise monetary restraint is, in my view, an oversimplification to explain such results. Lack of discipline at the monetary, and sometimes at the fiscal, level is undeniable. But it is also true that the impossibility of satisfying the requirements of the system has been a cause of such monetary disorder. The strict application of the rules of external stability produces internal fluctuations and pressures which result in serious maladjustments. Out of frustration, in the face of this situation, a tentative conclusion reached by many authorities in the developing world is that the backward economies are strongly handicapped in trying to play the game under the present exacting rules. Many adopt the quip made recently by a French paper: 'Is it reasonable to be reasonable in an unreasonable world?'

The Need for a World Central Bank

"Under these conditions, the solutions to the problems of an adequate adjustment process depends not only on the monetary mechanism but also on a number of extra-monetary devices. It is, therefore, clear that there is an institutional vacuum and an important role to play in the coordination of all these financial and monetary tools for a world or regional central bank or international monetary authority.

Increasing Monetary Cooperation in Latin America

"I will comment now on some steps that have been taken in Latin America in an attempt to increase monetary cooperation and therefore to improve the general situation of the adjustment mechanism. New world financial developments offer all developing countries and their central banks new challenges and opportunities which can briefly be summarized under the following headings: 1) foreign investment of central banks' reserve, if any; 2) Latin American securities flotations in foreign markets; 3) central bank arrangements in support of mutual trade; and 4) central bank arrangements in support of currency convertibility and stability.

Great Strides in Institutional Cooperation Among Latin American Countries

"In the last ten years Latin America has taken some important strides in arranging for institutional cooperation among central banks to provide, first, a center for interchange of ideas; this takes place two or three times a year. Then, arrangements for clearing-house functions have been rather effective: within the Central American Common Market about 80 per cent of transactions are cleared through the settlement mechanism. In South America only about 50 per cent of transactions are cleared, but this is the beginning of a cooperation onto which more significant arrangements can be grafted later on.

Global Institutions Are Born Out of Surging Needs

"To conclude, the main theme that I have tried to outline in these comments is that institutions, both national or international, are born out of surging needs, new developments and a world that changes at an ever faster pace.

The Need for an Adequate Monetary World Institution

"It seems quite clear that the global money and credit requirements that go with these changes need an adequate monetary world institution to prevent economic fluctuations from turning into severe crises.

"As a second corollary derived from these cursory comments on the mechanism of adjustment of the balance of payments in developing countries, I hope I have emphasized that some of the pitfalls in that process are partly due to inadequate centralization of reserves and their management, as well as of monetary administration, like that which is beginning to be achieved by the IMF or even the BIS. A world economy with a world monetary system based on the recent creation of SDRs seems, in the medium term and long run, to need a coordinating and centralizing monetary authority with more powers.

Only Powerful Nations Can Bring About the Necessary Global Institutions

"The small and medium countries of the world feel that more thought needs to be given to the way in which a mechanism can be put into practice to preserve monetary stability better, not only among the Group of Ten, but also amongst the weaker but more numerous smaller nations. Only the industrialized and the powerful nations can bring about the necessary institutional devices to cope with some of the problems that we have enumerated here today.

"May I recall a meaningful statement made some years ago by Governor Coombs of the Bank of Australia: 'We think that the medium and smaller countries which lie outside the Group of Ten, who enjoy sometimes needling and criticizing the mighty, should also recognize that this privilege carries with it some responsibilities.' In particular, we in the developing countries must demonstrate that we are willing, and indeed able, to manage our own currencies, our own balance of payments, and our own economies with reasonable efficiency, and therefore able to make our contribution to the world's stable development, provided that a satisfactory world climate and institutional framework is maintained for us.

An Appeal to the Mighty and Powerful

"There is in New Zealand a mythical story of a Maori warrior, who put out to sea in a canoe and was overtaken by a storm. Like many mortals when they are in peril, he prayed. However, the terms of his prayer, the New Zealanders say, were not that the storm would subside, or that he should be rescued, but that God should

move away the clouds so that he could see the stars and thus be able to navigate. I feel that when we appeal to the mighty – since only they can provide an institutional framework and a propitious climate – what we are asking them to do is to move away the clouds. We should at the same time, be able to assure them that when the clouds are removed away, we will be able to steer our own canoe.

W. Randolph Burgess:

"I think you, Dr. Machado. You have added a very important element to the equation that we will have to weigh in the balance as we think about these things.

"We now have, as the final speaker, Professor Harry Johnson. He is basically a Canadian, but he commutes between London where he is a professor, Chicago where he is a professor, and other places in the world where he professes one thing or another very importantly. We are delighted to have him in this important position as the final discussion.

Harry G. Johnson:

"At this stage of the proceedings, we have come a long way from the paper presented to us, and there is a temptation for a speaker to give his own views without too much reference to the views of the official speaker. I would like to go back on that temptation and return to the presentation that William McChesney Martin has made to us this afternoon.

A Tribute to Per Jacobsson

"I think that the paper he prepared for us, and still more the presentation he gave, is a very fine tribute both to the vision of Per Jacobsson, in whose honor these lectures have been established, and to the intention of the series, which is 'to encourage the thoughtful and informed consideration of international monetary and financial questions.' I think that the paper conforms exactly with that specification, but it gave us, at least the presentation of it gave us, much more. It gave us a sense of passion and concern about the issues which I was very glad to hear.

Concern for the World System

"People like Per Jacobsson, whose portrait is in front of us, and William McChesney Martin, who has presented his paper to us, have carried great responsibilities in the international monetary system, and in my view one can only do that successfully if one does have some concern about where they system is going and what direction progress lies in, and what should be done about it. Unfortunately, the requirements of civilized existence require that people with this kind of passion have to hide it as long as they are in office, and can show it only after they have left. Again, I am very grateful to Mr. Martin for showing us

something of the concern about the world system which obviously has motivated him.

We Have Been Moving Toward the Creation of a World Central Bank

"His paper is concerned with the basic issue facing the international monetary system – which is the question of where we stand now, and where we are going. Mr. Martin answers that question positively and resolutely: we have been moving towards a world central bank, at least functionally, if not in institutional form, and that is the direction in which we should continue to move. I am very pleased that he should make that message so clear and so forthright and I hope that the audience who heard it, and those who will read his words, will take it to heart.

An Important Contribution by the Former Chairman of the Board of Governors of the Federal Reserve System

"I think it is particularly important, this message, coming as it does from a former Chairman of the Board of Governors of the Federal Reserve System, since the United States dollar has dominated the international monetary system in recent years, and this has produced a certain conflict of interests in the American Administration and in American views and pronouncements on the system – conflict between the narrowly national self-interest in promoting the use of the dollar for a variety of reasons, and on the other hand, a genuine and generous interest in the system as a system and in the improvement of the monetary framework within which we have to live.

A Forward Looking Paper

"Mr. Martin's paper divides itself into two parts, a backward-looking part and a forward-looking part. I refer to this as a Janus-like performance. Some people, I think, after this afternoon may regard it as more Cerberus-like, with Mr. Martin guarding the gates of hell rather than guarding legitimate business. He looks backward to the disasters of the 1930s, to the lessons drawn therefrom, and to the fact that we have avoided those disasters in the postwar period through the development of international monetary cooperation. I found this part of his paper encouraging in some ways and discouraging in others. It is encouraging because it appeals to the sense of interdependence, to the sense of human responsibility to one another, the need to cooperate. And that I think is important, because too often, in this area in particular, people get blinded by narrow concerns of self-interest.

A Recognition of Interdependence

"I found it discouraging from another point of view, in that it plays down the most important factor which has underlain the growth of international monetary cooperation in the postwar period, and that is the growth of understanding of what the system is and what its requirements are. Recognition of interdependence, a

sense of responsibility to one another, is of no use unless you know why you are interdependent and what your responsibilities are. It seems to me that the great difference in the postwar as compared with the interwar period is that central bankers and related experts have come to understand what the system is and what its problems are. I do not think the difference between the interwar period and the postwar period can be found in the fact that all of a sudden central bankers have become humane, generous, cosmopolitan, public-spirited, and not bound by national self-interests. I think that the people of the 1920's and 1930's, judging by the history of that period, were just as public-spirited, just as anxious to do good for the world as any central banker I have met, including during the present sessions. The trouble was that they did not understand what the system was and what its problems were. What has happened is not that people have suddenly changed their human nature but that they have learned as a result of crisis, consultation and so forth, what the nature of the problem is and what has to be done about it. I think we academics can claim some credit in the educational process, though I am not prepared to assert that we were always ahead, since I think sometimes we have been behind, particularly with the invention of SDRs.

The Need for a Global Lender of Last Resort

"Still, what has been learned is that we have to have in the international system what central bankers provide in the national system, and this is essentially two functions: the first is the lender of last resort function; and the second is the provision for a steady growth of ultimate reserves for the system as a whole. These lessons have been learned as a result of a succession of crises, and, I think one can fairly say, the central bankers have responded fairly imaginatively to these crises.

Two Traps in the Central Banking Business

"There are two traps, as I see it as an academic scholar, in the central banking business. The first is the belief that every national aspiration can be achieved simultaneously; and I am afraid that some of the remarks by my two predecessors in commenting this afternoon retained traces of that fallacious opinion. The second is the temptation to believe that if you make a small action and a big statement, people will believe the statement and not notice the action. We have had some of that in the postwar period also, notably on the occasion of the gold rush of 1968, but, by and large, I think the central bankers of our generation have learned that big words are no good unless they are accompanied by big actions, and they have learned to take big actions. That, I think, is the imaginative and courageous part of the development that has occurred so far. As a result of that, I think that some of us academics who have been theorizing about a collapse of the system prompted by a liquidity crisis will be proved wrong on every occasion on which possibility of proof arises. I think central bankers have learned that you need to do internationally what you do domestically in times of crisis: you have to lend without stint, and you have not only to lend without stint but to make sure that

everybody knows you are prepared to lend still more if you have to. So I don't think we need fear a liquidity crisis any more, and in fact we have developed the lender of last resort function which the system needs.

"There has, however, been a cost to that, and that is, because it has been a matter of crises, the development has been dominated, to some extent, by blackmail on the part of the less responsible countries. In particular, the system has operated to impart an inflationary bias to the world monetary system as a result of subservience to the needs, on the one hand, of the United Kingdom, which is both big enough and weak enough to be able to extract more money from the others than it really deserves, and the United States which is big enough and strong enough to be able to extract the same sort of help. So, in spite of Mr. Martin's glowing words about the net beneficial pressures of cooperation and consultation in inducing countries to behave properly, I think Dr. Blessing perhaps has more nearly the right end of the stick when he points out that the system has not worked quite that well and that there is an inflationary bias in it.

The Role of Central Banks in a World System

"Recognition of the need for the lender of last resort function is really not that difficult a problem. In the history of domestic monetary systems before central banking we have many cases in which the big commercial banks realized, in times of crisis, that they had to get together, lend to each other and to be willing to lend without stint, and one would expect therefore that this particular function is one that central banks in a world system could learn fairly easily that they had to perform, even though it may be painful at the particular times it is necessary.

"The much more difficult problem has been to arrive at recognition of the need for a managed deliberate expansion of the ultimate reserves of the system. Here the temptation of central bankers is to believe that you can solve this problem by the same means as you solve the other one, namely, by temporary short-term credit, swaps, and so forth and so on, and that is a temptation which could be disastrous. But, fortunately for us, the central banks have learned, though somewhat later than they solved the other problem, that the system does require a deliberate and managed expansion of the basic reserves – and that is a truly revolutionary idea.

We Are Really Moving Toward the Creation of a Cosmopolitan Type of International System

"In fact, I think Mr. Martin has been rather – well, I don't know; his judgment and mine are things for you to weigh up, not for me to pass judgment on – I think he may have been too blandly reasonable in emphasizing the continuity of development through the postwar period to the idea of the SDRs. He may, while reassuring some people who like to believe that if you look backwards you can always predict the future, conceal the truly revolutionary nature of the idea of deliberate creation of international reserves needs. It is a bold adventure that the

system is undertaking, and it requires a lot of adjustments; and those adjustments won't be made properly unless people understand where we are going. We are not just repeating the past with small changes. We are really moving forward to the creation of a new, genuinely cosmopolitan type of international system.

SDRs – the First Real Step Toward a World Central Bank

"Special Drawing Rights, as Mr. Martin said in his paper, are the first step towards this. There are many other steps which he outlines and which have taken place through different international institutions, but this is the first real step towards a world central bank. It is the first step towards deliberate creation and management of international reserves and, as I see it, there are six problems that lie ahead of us in this field and which will have to be tackled. Mr. Martin deals with these in his own way, and he dealt with some others. I deal with them in a different way, and the reason for that is that he is a highly successful practitioner and I am a practically unqualified academic economist.

"The first problem is that the new reserves are marginal to the total of existing reserves. That means the management of them will have to be very carefully done if, in fact, the result of their creation is to give us more stability and not less. It will take a great deal of work on the part of the International Monetary Fund staff and on the part of the central bankers, to make sure that the creation of these new reserves really contributes to world stability and doesn't just throw another element of instability into the system.

The Interdependent Policies of the United States Government

"The second point which Mr. Martin deals with and Dr. Blessing mentioned also, is that what happens is going to depend very much on the nature of the United States policy. And this, unfortunately, is not a simple matter of U.S. policy by itself, because U.S. policy is going to be interdependent with the policies of other countries and with the management of SDRs themselves. Ideally what we would like to see would be that SDRs provide the increment of world reserves so that the United States can have a balanced balance of payments, which in turn implies that other countries don't get too greedy and try to get more reserves than collectively has been decided should be provided.

Existing Reserve Assets Could Become One

"The third point, which Mr. Martin also mentioned, is that it would be highly desirable in the longer run if all of the existing reserve assets could be consolidated and become one asset, managed by the equivalent of a world central bank. In order for that to happen we will have to reach a position in which the other assets are more-or-less stable in quantity from year to year so that consolidation of them doesn't offer the prospect of any substantial gain to one country and substantial

loss to another. And that in turn ties in with the consideration I just mentioned as to the interdependence of all these different policies.

"The fourth question which Mr. Martin raised is the question of moving onwards from providing for stable growth of world reserves to providing contra-cyclical management of those reserves. That is an idea which is highly tempting to any central banker: that you don't just sit there, you do something, and what you do is that you try to make the reserves more contra-cyclicly so that you achieve greater stability. Well, that naturally appeals to Mr. Martin, and I am sure it appeals to many other people in the room, but it definitely doesn't appeal to me and the reason is that I have studied the evidence as to how skillful central banks are in managing basic reserves so as to perform a contra-cyclical function and make the economy better than it otherwise would be. That evidence shows that they are very poor indeed at the job, and, considering what sort of organization a world central bank would have, I have even less confidence that a world central bank could sit there skillfully 'fine tuning' the world economy by deft adjustments of SDR increments or, going further, by astute open market operations, in particular money markets. So my view on that subject is that we should try first to get a stable growth of the ultimate reserves of the system, provide stability which we haven't had before, and only after that should we consider whether in fact it is possible to improve on stable growth by deliberate destabilizing policy aimed at contra-cyclical management.

One of the Temptations of Central Bankers

"The fifth question is the point of surveillance of the Euro-dollar and Euro-bond markets. Here I feel that the old central bank devil is creeping out in Mr. Martin in spite of his generally generous-minded attitude towards the world. It is one of the temptations of central bankers to believe that they know better than the market does what sorts of credit instruments are credit worthy and what are not, and to believe that without their help private competition must inevitably result in financial disaster, I don't believe that. I believe that the Euro-dollar market and the Euro-bond market instead are developments which reflect the weaknesses of central banking, particularly in Europe, and I do not really see that anybody has the intelligence or the ability to do better than that market does. And I see no real reason to worry about the problem.

There Will Be Problems in the World Economy

"Well, the final point concerns the question of regional imbalances. It is on this subject that I think Mr. Martin's paper is at its most perceptive, and that is a prize that it is difficult to award, given the range of subjects he covers and the wisdom he brings to bear on them. 'Regional imbalances, as he points out, are not a problem within a nation but are a problem in the world economy; and the reason is precisely that the regions of a country do not have autonomous policy devices at

their command, whereas nations do. Once you have a lever to pull it is by no means guaranteed that you pull it in the right direction at the right time, especially if somebody is telling you that you should pull it the other way. This means that there will be in the world economy problems of adjustment between regions which there will not be, or are not, within a national economy, and Mr. Martin, along with many of the rest of us, believes that one step towards solving that problem would be more flexibility of exchange rates. I found myself torn on this issue. I have always been an advocate of rate flexibility, and I certainly believe that in the present state of defective development of international cooperation, which Dr. Blessing laid out for us at great length, some flexibility of exchange rates is absolutely necessary if the system is to function on the whole in a liberal way. But from the longer run point of view, the question does arise whether we might not be better off in our world economy, which we are trying to build with this system, with complete rigidity of exchange rates as we have within a nation, but allied with the development of the kinds of mechanism we have within a nation to soften the blow of commitment to a single currency – that is, arrangements for deliberate transfers of income from rich regions to poor regions, and arrangements for encouraging the mobility of labor, of capital, and of technology between regions. In other words, should we not look instead to deliberate efforts to make the maintenance of a fixed exchange rate between the regions tolerable to the people who live with it rather than providing for more flexibility? The argument for a fixed rate system is essentially the argument for a common currency. Rate flexibility is an attempt to get the advantages without too many of the disadvantages. And while, in the present state of affairs, there is a very strong case indeed for more rate flexibility, in the longer run it seems to me we ought to be aiming for one world currency managed by one world bank.

The Establishment of a World Currency

"There is one final point there, which is that, if we do provide for more flexibility of rates, the result may not be the establishment of a world currency and a world central bank, but instead the gradual rise to dominance of that national currency which has the advantages and attractions, and that would mean that establishment *de facto* of a world dollar standard – which I do not think would be in the world's interest as we understand at present. (Martin, pp. 28-49.)

Part V – The Bestowal of Additional Power on the IMF

On October 31, 1979, Anthony M. Solomon, then Under-Secretary of the U.S. Treasury, stated:

"The nations of the world have revised the IMF Articles to provide a concrete basis for cooperative effort in dealing with the problems of an interdependent world. The Articles focus on the fundamentals of domestic economic policy as the basic determinant of stability in the international economy. The institutional and

consultive framework we have established enables us to deal with these problems in a concerted fashion. The Articles have given us an SDR which is slowly being moved to the center of the system. A substitution account which could contribute to the evolution of the system and the central role of the SDR in the system is now under discussion. (Address, *Department of the Treasury News*, Washington, DC., October 31, 1979.)

Revision of the IMF's Articles of Agreement

The bestowal of additional power on the IMF was accomplished through a revision of the Articles of Agreement. As noted previously by William McChesney Martin, the IMF took a giant leap toward becoming a global central bank when it launched its international currency called, "Special Drawing Rights." The SDRs are the first international-created currency.

With the official acceptance of SDRs gaining momentum it appears that the IMF train is gaining speed down the tracks toward the long anticipated goal of the elite – a global central bank similar to the Federal Reserve System.

A Meeting of the Most Powerful Men in the World

At the 1979 IMF-World Bank meeting in Belgrade, Yugoslavia, 6,000 of the world's most powerful and influential international bankers, investment bankers, corporate directors, managers of global economic institutions, finance ministers, treasury officials and central bankers, assembled to decide the future of the international monetary, economic and trading systems which they created. R. Gregory Nokes, a journalist who attended the meeting, stated:

"The International Monetary Fund may take another step here this week toward becoming a world superagency with authority to direct economic policies of its 138 member nations.

"If the IMF gets that authority, it will be because the United States and other major industrial nations want it that way. They will have concluded it is hopeless to try to cope individually with the common problems of inflation and sluggish economic growth.

The IMF Developed a Common Economic Strategy for the Trilateral Nations

"The IMF last year developed a common economic strategy that most major nations, including the United States, have followed. This strategy, involving the three major non-communist industrial powers, called for slower economic growth in the United States and faster growth for Germany and Japan.

"At its annual meeting here this week, the IMF will consider a proposal for taking surplus U.S. dollars out of the world economic system and retiring them in an IMF account called a substitution account.

Strengthening the Role of the IMF

"Once cool to the idea, the United States now favors the plan as a way of stabilizing the dollar and strengthening the role of IMF money called Special Drawing Rights. Countries that deposit dollars in the IMF will receive SDR assets in exchange, and the United States will pay the interest.

"The plan would give the IMF more direct involvement in managing the world money supply. There are about \$600 billion or more in American dollars circulating outside the United States in virtually unregulated financial markets.

"The Carter administration, like that of President Gerald R. Ford, clearly favors the overall acquisition of authority by the IMF, whose headquarters are in Washington.

The Need for Nation-States to Manage Their Economic Policy on a Global Basis

"Anthony M. Solomon, under-secretary of the Treasury for monetary affairs, said in a recent speech there is 'a transcending need for the world to better organize, coordinate and ultimately manage its economic policy on a global basis.'

"Said Solomon: 'The world has to face whether it is prepared to contemplate openly a partial ceding of national authority over economic policy to an international body.

"I pose this question in full knowledge that such a step is not politically realistic today. But real national authority and autonomy are limited in any case by the fact of our interdependence.

Congress Approved Strengthening of the IMF

"Solomon isn't alone in this view. Congress last year approved new authority for the IMF to ensure that individual nations are following economic policies aiding a stable international monetary system....

The IMF Has Enforcement Power Over Nation-States

"In approving new powers for the IMF, Congress probably did not believe it was yielding any real authority to the agency because there is no new enforcement power.

"However, Jacques de Larosiere, the French managing director of the IMF has asserted the agency does have authority to enforce its will on recalcitrant members.

"'Moral authority is the most important power of the fund,' he said. In extreme cases, the IMF could declare a member ineligible for financial assistance.

"Most members, including the United States, have had to go to the IMF on occasion to borrow funds in difficult financial circumstances. The IMF usually sets conditions for its loans, requiring the borrowing country to pursue a particular economic strategy....

Nations Must Choose Coordination of Their Economics

"Solomon said in his recent speech in Austria that nations must soon choose between coordinating management of their economies through an institution like the IMF or because of 'the strains and pressure arising from our interdependence,' lapsing into a destructive situation of countries pitted against each other...." (R. Gregory Nokes, "IMF Will Consider Retiring Surplus U.S. Dollars, *The Salt Lake Tribune*, September 30, 1979, p. A9.)

A World Central Bank Will Prevail

Even though there is a great deal of discussion over the SDRs, the IMF is confident they will be accepted and utilized in the future. In 1979, J.J. Polok, the Economic Counselor and Director of the Research Department of the IMF, wrote a pamphlet entitled, "Thoughts on an International Monetary Fund Based Fully on the SDR." It is apparent that the IMF is operating on the basis that the "substitution account" will be instigated, even if it takes a little time to iron out the difficulties and details.

Part VI – The Merger of East and West

The goal of the global elite to manage the entire world as a single economic unit. The economic management system is first being constructed, similar to the strategy that is being followed in the European Community. The "Imperial System" is designed to manage all the nations of the earth including the communist nations as well as the LDCs. The LDCs are now so far into bondage that they are under total control and dominance of the managers of the world economy. Since the Western world – the twenty-four most advanced industrial nations – are also under the control of the elite, it only remains for the merger of East and West. The merger of East and West, as pointed out in previous sections of this work, has been occurring since the construction of the "communist nations." The elite now feel that the world has been sufficiently prepared to merge with the communist nations under the new global management system. The global economic institutions are maneuvering to allow the former communist bloc nations, China and Russia to join

the "new Imperial System." In an article entitled, "Changing the Power Balance," a correspondent for the *Far Eastern Economic Review* stated:

"China became a full member of the International Monetary Fund (IMF) on April 17 [1980] and is expected to take its seat when the IMF's interim committee meets in Hamburg on April 28. The move is taking place months before American and European financial officials thought possible and reflects China's desire to enhance its political position in the world and to gain access to large amounts of relatively cheap credit for its ambitious development plans. Peking's membership in the World Bank is expected to follow quickly its admission to the IMF.

China Replaces Taiwan

"In replacing Taiwan as China's accepted representative in both institutions, Peking could potentially change the overall balance of power within these and other international financial institutions. China's enormous size could easily cause it to emerge as a leader of the Third World in the halls of the IMF, the World Bank and the Asian Development Bank (ADB), which it is also expected to join shortly. At the same time China will be the biggest communist country to join the IMF.

A Political Coup for Peking

"While China's entry into the IMF may prove to be a political coup for Peking, it could not have come at a worse time for the other poorer nations of Asia, Africa and Latin America. The oil price rises of the past year are generating enormous new payments deficits which will have to be financed. Commercial banks in the United States and Europe are under strong pressure from their central banks to cut back on lending to lesser developed countries (LDCs) and Japan's banks are expected to return to Euromarket lending at only half the frequency of last year (*Review*, Apr. 18). In fact the latest meeting of central bankers through the Bank of International Settlements in Basle, Switzerland recently issued an unusual public warning about excessive lending on the Euro-markets.

Growing Demand for IMF and IBRD Credit

"With the private banking system perhaps unlikely to repeat its petrodollar recycling effort of 1973-76 following more recent oil shocks, all eyes have turned to the IMF and World Bank as saviours of the LDCs and even some industrial nations. There is growing demand for IMF/World Bank credit resources in many parts of the world and now China is going to have a claim on a very substantial part of these resources. This could hurt many other poorer countries.

"China could potentially demand special drawing rights (SDRs) in relation to its huge population, gross national product and share of world trade. In theory, China should be able to claim about 33% more than, for instance, India's billion SDRs (an SDR is currently worth US\$1.30). Unless new SDR shares are created – though

this seems likely – this would mean a major realignment of drawing rights among developing countries in the IMF and a loss for nations such as Pakistan, India and Bangladesh.

China May Move to Increase Voting Rights

"Just as important, China may also move to increase its voting rights and demand the seat reserved for the LDCs as a group on the IMF's board of executive directors. It will be a while before China translates its new entry into actual power within the IMF. Voting shares are based on country quotas of paid in capital and since 1946 China's share has been frozen at its original 550 million SDRs – around US\$700 million. That puts China 17th among all IMF members, behind India and Australia.

"China would have to get permission from the majority of IMF members to increase its quota significantly and that would be subject to intense negotiations. Yet even with its present quota, China would probably get the directorship of the Asian section of the fund plus leadership of one of the IMF's 15 regional groupings.

"Once China gets in, it will be very difficult for it not to be tempted to draw down the relatively cheap credits available to it from the IMF and more especially from the World Bank and its associated International Development Association (IDA). China could readily raise billions of dollars from commercial banks at 0.5% over the London interbank offered rate (Libor), but at present the six-month Libor rate is about 17.6%. China has chosen not to draw down the potentially very large lines of credit from the commercial banks for just this reason. They are expensive relative to the government-subsidized export credit loans Peking has received from Japan and Europe.

World Bank Loans

"The new IMF/World Bank credits would be much cheaper than commercial loans and comparable with official export credits. Most World Bank loans cost about 8.25-8.5% and the IDA can provide credits at even lower rates. For example, the first year credit tranche from the IMF costs 4.87% and the tranche for five years costs 6.625%. With its visible trade deficit amounting to about US\$2 billion in 1979, China is making use of government-subsidized export loans from the US Eximbank and equivalent European agencies but Peking will be tempted to borrow IMF/World Bank money as well.

A Compromise Between Taiwan and China

"One of the most important decisions leading to China's quick entry was a compromise worked out on April 14 by the US delegation between Taiwan and China over the gold which Taiwan pledged to the IMF in 1946, when the

international financing institution was established, as part of its subscription or quota in the fund.

"The gold compromise was crucial for US president Jimmy Carter's Administration in getting China into the IMF. Several US senators, led by Florida Democrat Richard Stone, opposed transferring the metal to China. They welcome the compromise and, through they do not like the expulsion of Taiwan, they will accept it under these conditions. ("Changing the Power Balance", *Far Eastern Economic Review*, April 25, 1980, p. 85.)

Part VII – Conclusion

From the preceding pages, it is obvious that a global management system in the economic areas is slowly evolving. The IMF is being prepared to assume full-fledged responsibilities as a global central bank. The nations of the earth have been slowly transferred economic and political sovereignty to the global economic institutions. As a result of the process, the nations of the earth, including such advanced countries as the United States, are evolving into mere administrative units in a new global system. The public-at-large is not informed of the long-range goals of the elite and therefore have no decision in the process of whether they shall live under a global system of governance. The IMF will continue to grow in power and the nation-state will continue to decrease in power. Gradually a new international paper currency is being developed on the earth. Day-by-day the inhabitants of the earth are being guided into a "new Imperial System."

14. General Agreement on Tariffs and Trade – Economic Disarmament of the World

Part I – Introduction – Political and Economic Independence

From 1787 until 1934, America's economic doctrine was designed to protect its industrial and manufacturing base and allow for the free flow of commerce among the individual states. While adhering to these policies the United States developed into the most prosperous and free nation on earth. The basis for this economic policy was found in the United States Constitution. Article I, Section 8, Clause 1 and 18, gave Congress power over duties and imports. Article I, Section 8, Clause 3, gave Congress power to regulate commerce with foreign nations and among the individual states. The framers of the United States Constitution were desirous for America to maintain a state of economic independence as well as political independence. The United States Constitution, in essence, established a common market among the various states and provided that the peoples' representatives could erect tariff barriers around the new market.

Trade Disputes Among the Newly Formed States

After the War of Independence, England persisted in its one hundred twenty-five year old effort to subjugate the colonies utilizing trade once again as one of its major weapons. Professor Orrin L. Elliott outlined the struggle of the colonies during this critical period as follows:

"The Declaration of Independence threw off all restraint, but the war itself was such a barrier to commerce that there was little incentive to tariff legislation. The Continental Congress had no power to regulate trade, and the cause of the colonies had, by this time, become, in some sense, a protest against the restrictive system of England. Before the final rupture various attempts were made by non-importation agreements and otherwise to break off trade with England and encourage home manufactures; such encouragement the war effectually provided. On the return of peace the new republic sought reciprocity with all nations, and the failure to secure this, added to the commercial complications at home, brought the newly united states to the verge of dissolution.

"The desperate financial straits of the Confederation, and the impossibility of raising money by requisitions on the states, first turned the attention of the country to the question of intrusting Congress with the power of regulating trade. New Jersey, in 1778, soon after the Articles of Confederation were approved by Congress, laid before the body a proposition that, inasmuch as state control would lead to unavoidable confusion, Congress alone should have the power to regulate commerce and dispose of the resulting duties. In 1780 Hamilton, in a letter to James Duane, maintained that Congress should have the power of regulating trade, determining with what countries it should be carried on. The same idea found expression in the address of the Hartford Convention of 1780. In December of that year Pennsylvania instructed its delegates in Congress that imposts on trade were absolutely necessary, and in order to prevent one state taking advantage of another, Congress should recommend to the several states a system of imposts. In 1781 Congress itself asked for authority to levy an impost duty of five per cent, the revenue to be applied only to war expenses, and to continue until the debts were paid. One by one the states replied until all had consented, with more or less reservations, except Georgia and Rhode Island. Congress again called upon these states to act. But Georgia made no response, and Rhode Island refused outright, alleging that such a duty would bear most heavily upon commercial states like herself, objecting to collectors appointed by Congress, and insisting that it was far too much power to intrust to Congress.

An Attempt to Regulate Commerce

"In 1783 Congress returned to the same plan, and a bill was drawn up calculated to meet the objections to the former measure. The concurrent right of taxation was still retained by the states, and the grant of power to Congress was limited to

twenty-five years. Collectors of revenue were to be chosen by the states, and the grant was to take effect only when all the states had given their consent. This bill, approved by the almost unanimous vote of Congress, was sent out to the states accompanied by a solemn appeal, drawn from the desperate condition of the finances, written by Madison, and an elaborate answer to Rhode Island's former objections, written by Hamilton. After many delays and a second appeal from Congress, conditional acceptances were received from all the states except New York. In this refusal New York persisted, reiterating her position so late as February, 1787. In 1784 Congress called upon the states for a grant of power to regulate commerce for fifteen years, by prohibitions and discriminations against unfriendly powers. But the response to this request was even less favorable than to the others.

Commercial Warfare Breaks Out Among the States

"Meanwhile the states, with different tariff and tonnage acts, began to make commercial war upon each other. When three New England states virtually closed their ports to British shipping, Connecticut threw hers wide open, and then laid duties upon imports from Massachusetts. Massachusetts retaliated by imposing heavier duties on imports from Connecticut than from Great Britain. Pennsylvania discriminated against Delaware. New Jersey paid tribute to both her neighbors. New York exacted the same entrance fees and custom-house regulations from the sloops of Connecticut and New Jersey as from foreign vessels, and these states promptly retaliated. Articles which Connecticut and New Jersey excluded by heavy tonnage duties, entered New York virtually free. What Massachusetts encouraged, Virginia restricted. Virginia even proposed to impose enormous duties without regard to the action of the other states. New York was indifferent to the trade in indigo and pitch, South Carolina to that in furs. New England's revenues came from lumber, oil, and potash; Pennsylvania's from corn and grain; and neither was concerned as to the interests of the other. Pending the action of the states on the five per cent impost, Madison wrote: 'In this suspense, the more suffering states are seeking relief from political efforts which are less likely to obtain it than to drive their trade into other channels and to kindle heart-burnings on all sides.' And six months later: 'The states are every day giving proof that separate regulations are more likely to set them by the ears than to attain the common object.' (Orrin Leslie Elliott, *The Tariff Controversy in the United States, 1789-1833*, Palo Alto, California, Stanford University, September 1892, pp. 18-21.)

Congress Establishes an Impost Tax

The Constitutional Convention of Philadelphia produced a near perfect governing document. After the Constitution was ratified by representatives of the people meeting in state conventions, George Washington was elected President. Congress met in New York to breathe the breath of life into the new government. The first order of business for the new Congress was an impost. James Madison,

now serving as a member of the House of Representatives, introduced a bill written by himself in 1783. After five weeks of debate, the bill passed Congress on May 16, 1789. It retained the five per cent ad valorem rate of 1783, but enlarged the enumerated list of items eligible for the impost tax.

Part II – The Influence of James Madison on America's Tariff System

In 1789, there were clearly two schools of thought in reference to trade. One group advocated free trade, while the other group favored protection for infant industries. John Adams had declared in 1785:

"If all intercourse between Europe and America could be cut off forever, if every ship we have were burnt, and the keel of another never to be laid, we might still be the happiest people on earth, and in fifty years the most powerful." (Adams to John Jay, December 6, 1785, John Adams' Works, 357.)

The Impossibility of Free Trade

James Madison recognized that it was impossible for one nation to practice free trade while the remaining nations protected their industries. He stated:

"Much indeed it is to be wished, as I conceive that no regulations of trade, that is to say, no restrictions on imposts whatever, were necessary. A perfect system is the system which would be my choice. But before such a system be eligible, perhaps, for the United States, they must be out of debt; before it will be attainable, all other nations must concur in it. Whilst anyone of these imposes on our vessels, seamen, etc., in their parts, clogs from which they exempt their own, we must either retort the distinction or renounce, not merely a just profit, but our only defense against the change which may most easily beset us. Are we not at this moment under this very alternative? The policy of Great Britain (to say nothing of other nations) has shut against us the channels without which our trade with her must be a losing one; and she is consequently the triumph, as we have the chagrin, of seeing accomplished her prophetic threats, that our independence should forfeit commercial advantages for which it would not recompense us with new channels of trade." (Madison to Monroe, August 7, 1785, 1 Madison's Works, 170.)

Madison Seeks to Curb Free Trade Policies in America

Madison felt that Congress should redress these measures by retaliating with regulations of trade – thus he was persistent in his efforts to curb European free trade policies in America. Concerning the tariff argument, Professor Orrin L. Elliott said:

"The argument for protection was blunt and practical. Manufacturers already established should not be allowed to go down; especially in those states where legislative aid had been granted. These states, argued Madison, had surrendered

this power to the general government in the confident expectation that the protecting arm should not be withdrawn. The country ought to be independent of foreign countries for supplies, and this could be accomplished by extending the aid of the government to certain industries for which the country was well adapted." (Elliott, p. 70.)

The Debate Over Imposts in the First Congress

James Madison had a profound understanding of the free market system and the desirability of free trade among the states and the nations, providing all adhered to the principles of freedom. In the debates over the impost in the First Congress, Professor Elliott records:

"Madison...urged immediate action from considerations of revenue. The general interest, he declared, must be considered, and any system must be founded on the principles of mutual concession. Those states most advanced in population and ripe for manufactures, ought to have their interests attended to in some degree. By adopting the Constitution they had thrown the power of regulating trade out of their hands, and doubtless with the expectation that those interests would not be neglected by the national government. 'I own myself,' he said, 'the friend to a very free system of commerce, and hold it as a truth, that commercial shackles are generally unjust, oppressive, and impolitic. It is also a truth that if industry and labor are left to take their own course, they will generally be directed to those objects which are the most productive, and this is a more certain and direct manner than the wisdom of the most enlightened legislature could point out. Nor do I think that the national interest is more promoted by such restrictions than that the interests of individuals would be promoted by legislative interference directing the particular application of its industry.... For example, it would be of no advantage to the shoemaker to make his own clothes to save the expense of the tailor's bill, nor to the tailor to make his own shoes to save the expense of procuring them from the shoemaker. It would be better policy to suffer each of them to employ his talents in his own way. The case is the same between the exercise of the arts and agriculture, between the city and the country, and between the city and the town; each capable of making particular articles in abundance to supply the other; thus all are benefited by exchange, and the less this exchange is cramped by government, the greater are the proportions of benefit to each. The same argument holds good between nation and nation, and between parts of the same nation.'

Duties on Imposts

"To this unequivocal enunciation of the conclusions of the Wealth of Nations, Madison hastened to add that there were exceptions, important in themselves, and which claimed the particular attention of Congress. 'If my general principle is a good one, that commerce ought to be free, and labor and industry left at large to find its proper object, the only things which remains will be to discover the

exceptions.... Although the freedom of commerce would be advantageous to the world, yet in some particulars one nation might suffer to benefit others, and this ought to be for the general good of society. If America were to leave her ports perfectly free and make no discrimination between vessels owned by her citizens and those owned by foreigners, while other nations make this discrimination, it is obvious that such a policy would go to exclude American shipping altogether from foreign ports.... By encouraging the means of transporting our products, we encourage the raising of them.... Duties on imports may have an effect which comes within the idea of national prudence. It may happen that materials for manufacture may grow up without encouragement for this purpose; it has been the case in some of the states, but in others, regulations have been provided and have succeeded in producing some establishments which ought not to be allowed to perish.... It would be cruel to neglect them and divert their industry to other channels; for it is not possible for the hand of man to shift from one employment to another without being injured by the change.' Another exception, Madison said, would be an embargo in time of war. Another which had been argued with great plausibility, namely, that each nation should have within itself the means of defense, independent of foreign supplies, he thought had been carried too far, although there might be some truth in it.

Tariffs Designed to Protect Industrial Base

"Later in the debate, in reply to Lawrence of New York, who insisted that the United States was not in a condition to engage in commercial war, and who wanted commerce let alone, Madison committed himself more unreservedly to government interference with industry. 'I am a friend of free commerce,' he said, 'and at the same time a friend to such regulations as are calculated to promote our own interest, and this on national principles.... I wish we were under less necessity than I find we are, to shackle our commerce with duties, restrictions, and preferences; but there are cases in which it is impossible to avoid following the example of other nations in the great diversity of our trade.... Although interest will, in general, operate effectually to produce political good, yet there are causes in which certain factitious circumstances may divert it from its natural channel, or throw or retain it in an unnatural one. Have we not been exercised on this topic for a long time past? Or why has it been necessary to give encouragement to particular species of industry, but to turn the stream in favor of an interest that would not otherwise succeed? But laying aside the illustration of these causes, so well known to all nations where cities, companies, or opulent individuals engross the business from others, by having had an uninterrupted possession of it, or by the extent of their capitals being able to destroy a competition, let us proceed to examine what ought to be our conduct on this principle upon the present occasion. Suppose two commercial cities, one possessed of enormous capitals and long habits of business, whilst the other is possessed of superior natural advantages, but without that course of business and chain of connections which the other had; is it possible in the nature of things, that the latter city should carry on a successful competition with

the former? Thus it is with nations; and when we consider the vast quantities of our produce sent to the different parts of Europe and the great exportations from the same places, that almost all of this great commerce is transacted through the medium of British shops and British merchants, I cannot help conceiving that from the force of habit and other conspiring causes, that nation is in possession of a much greater portion of our trade than she is naturally entitled to. Tarde, then, being restrained to an artificial channel is not so advantageous to America as a direct intercourse would be; it becomes, therefore, the duty of those to whose care the public interest and welfare are committed, to turn the tide to a more favorable direction...." (Elliott, pp. 77-80.)

Madison's Role in Establishing the Tariff System in America

The tariff act of 1789 yielded more revenue than had been expected and protection for certain industries had been achieved. To Madison belonged the credit for the implementation of the tariff system. Historians are sometimes neglectful of the impact and policies of James Madison. It is impossible to understand the evolution of America's commercial policy in the early Republic without understanding Madison's unique role and contribution. Professor Drew R. McCoy is one of the few historians who have understood Madison's role. In 1974 Professor McCoy published an article entitled, "Republicanism and American Foreign Policy: James Madison and the Political Economy of Commercial Discrimination, 1784-1794." In this paper he noted:

"As one of the more prominent members of the First Congress, Madison moved immediately in the spring of 1789 to implement his program for economic independence. The cornerstone of that program was commercial discrimination – a distinction in tonnage and tariff laws between nations in and out of commercial treaty with the United States. The target was Great Britain, which had refused since the peace of 1783 to enter into mutually acceptable commercial arrangements with its former colonies. As befitted a staunch republican and Virginia planter, Madison bemoaned the existing structural ties between the American and British economies.

"Credit, for example, was a curse used by experienced British merchants to divert American commerce from its 'natural channels.' Influenced strongly by the commercial liberalism of Adam Smith, Madison predicated his analysis on a rather vague but consistent reference to an ideal, 'natural' international economic order.

"Despite political independence, Americans were still tied to the old system of British mercantilism; not only did British merchants and capital dominate American trade, thereby restricting foreign markets for American exports, but they directed it into 'artificial' and politically dangerous channels of dependence. Madison's aim was to remove these onerous shackles from American commerce; his vehicle was retaliatory commercial legislation in the form of discrimination.

The Necessity of an Independent Navigation Industry for Defense and Access to Foreign Markets

"Discrimination was designed to accomplish several purposes. First, it would encourage the development of American shipping, an objective dearer to Madison than to most southerners at that time. Proclaiming to Congress that he was 'a friend to the navigation of America' who would always 'be as ready to go as great lengths in favor of that interest as any man on the floor,' Madison insisted that an independent navigation industry was necessary both for naval defense and for easy, dependable access to foreign markets.

Discrimination Would Loosen the Deadly Grip of British Credit and Redirect American Commerce

"Second, discrimination would force the British to grant America a just reciprocity in commerce; it would occasion a relaxation of the British navigation acts and thus loosen the deadly grip of British credit and redirect American commerce into more 'natural' channels. Madison was particularly interested in promoting direct trade with France, a nation in commercial treaty with the United States, by reducing the lucrative (and unnatural) British reexport trade of American produce.

Confidence in the Efficacy of Commercial Coercion

"Another primary target was American trade with the British West Indies, as Madison intended to force open this 'most natural and valuable' channel of commerce that the British had closed to American vessels in 1783. Confidence in the efficacy of commercial coercion had characterized American Revolutionary thought, but never was the policy more articulately promoted and defended than by Madison in this initial period of nation building. To understand why he was convinced that an 'infant country' had sufficient power to coerce the mightiest nation on the globe, it is necessary to examine the assumptions on which the rationale for discrimination was based.

The Assumption on Which the Rationale for Discrimination Was Based

"From a twentieth-century perspective, Madison had a peculiar analysis of the comparative nature and strength of the American and British economies. Great Britain was in a precarious position. 'Her dependence as a commercial and manufacturing nation,' Madison argued, 'is so absolutely upon us that it gives a moral certainty that her restrictions will not, for her own sake, be prejudicial to our trade.' The United States produced 'necessaries' for export – food and raw materials – and imported 'superfluities' in the form of British manufactures. Great Britain was 'under a double dependence on the commerce of the United States', her West Indies could not subsist without American supplies, and her manufacturers could not subsist without American customers. Madison usually emphasized the later

dependence, asserting the general rule that 'in proportion as a nation manufactures luxuries must be its disadvantage in contests of every sort with its customers.' The United States, on the other hand, was blessed with an economy that provided a unique and relatively untapped source of natural power. Arguing that 'the produce of this country is more necessary to the rest of the world than that of other countries to America,' Madison contended that 'we possess natural advantages which no other nation does.' Therefore, 'if we have the disposition, we have abundantly the power to vindicate our cause.'

Madison's Views Were Opposed by Hamilton

"Several of Madison's fellow congressmen were at a loss to penetrate this logic and hardly shared his perception either of the latent strength of an undeveloped American economy or of Britain's dependence on it. They found it difficult to regard British clothing and hardware as 'superfluities,' and, unlike Madison, they feared the dire consequences of British economic power should commercial discrimination provoke a full-scale commercial war with that nation. Madison's blanket view of American imports from Britain as 'superfluities' stemmed in part from his conviction that the United States had the potential to manufacture any 'necessaries' that it currently imported, and that the young Republic could, if necessary in the unlikely event of a commercial war, be converted very quickly into a society of self-sufficient yeomen who spun their own clothing at home. But this in itself seems insufficient to explain Madison's extreme view of British weakness and dependence on America, a view disputed by several of his contemporaries and, most importantly, actively opposed by the secretary of the Treasury [Hamilton].

The Origins of American Republicanism

"It is apparent that Madison's weltanschauung was strongly grounded in the structured intellectual paradigm now referred to as American 'republican ideology.' As several scholars have recently demonstrated, the vocabulary and concepts generated by minority opposition to government in eighteenth-century England permeated the American mind throughout the Revolutionary era. 'Corruption' signified more than bribery or dishonesty in government; it was an ideological catchword that connoted fundamental social and moral decay. American republicanism had its immediate origins in English 'country' thought, which had flourished in the wake of England's post-1688 financial revolution and the crown's increased use of an enlarged patronage power. Radical Whig 'Commonwealthmen,' led by John Trenchard and Thomas Gordon, had shared with the nostalgic Tory Lord Bolingbroke a moral and aesthetic aversion to certain features of the new politico-economic order consolidated under Robert Walpole.

The Pernicious Influence on Government and Society by the Large Merchant Bankers in London Signaled the Decline of English Liberty

"To these critics, the growth of a new system of public finance, accompanied by the emergence and development of large moneyed companies (most notably the Bank of England) and the institutionalization of a stock and money market in London, brought into existence social types (rentiers, speculators in public funds, placemen and the like) whose influence on government and society was pernicious; their predominance signaled the decline of English liberty and the corruption of the moral and social fabric. After 1760 most Americans came to share this view, and the Revolution became, in part, the necessary struggle to save America from that same corruption. This 'country' image of eighteenth-century England furnished the rationale for commercial discrimination, for it depicted an unhealthy, debauched society whose strength and prosperity were illusory – a society mired in fiscalism, with a national debt, privileged corporations, paper money, 'stockjobbers,' and all the attendant moral evils, in which large numbers of citizens, suffering under the burden of institutions incompatible with republican liberty, lacked 'independence' and 'virtue.'

Citizens of Great Britain Were in Economic and Political Bondage

"Economically, then, Great Britain was 'dependent' on the United States precisely because so many of its citizens were not free in either an economic or a political sense. In particular, British manufacturers of 'superfluities' could never be independent, since they depended for subsistence on a capricious, often transient demand for their products. In both his essay 'Fashion,' published March 20, 1792, in Philip Freneau's *National Gazette*, and later in congressional debates on commercial discrimination, Madison pointed to the pathetic plight of twenty thousand English buckle manufacturers and employees who were devastated by a sudden preference for shoestrings and slippers. To him these victims of the 'mutability of fashion' offered a disgusting example of 'the lowest point of sevility.' An economy characterized by such industries was particularly vulnerable to customers who exported 'necessaries' that would always command a 'sure market.'

British Restrictions on American Commerce Threatened the Virtue and Autonomy of the New Republic

"Blessed with plentiful natural resources (primarily an abundance of open land) and a healthy political culture, the United States, by comparison, was a young and virile society of independent and industrious republicans. Madison never doubted that American power was latent, sown in nature, and fully capable of shattering the British restrictions on American commerce that threatened the virtue and autonomy of the new Republic.

A Vehicle for Building an Independent American Economy

"Commercial discrimination was thus to be Madison's vehicle for building an independent American economy. But his conception of economic independence did not necessarily imply extensive domestic manufactures, the development of a great home market, or a diminishing reliance on foreign markets for American agricultural exports. His intention was not to use commercial regulations as a means of raising semipermanent tariff walls to encourage 'industrial growth,' a balanced internal economy, and American self-sufficiency. There did exist a radical strain of republican thought in America with strong anticommercial, even anticapitalist overtones, which called for the United States to isolate itself completely from the corrupting influence of the rest of the world.

Madison Was Promoting the Development of an International Economic Order Based upon Freedom

"The retaliatory duties provided for by Madison's discrimination program were a means to this end, temporary regulations that would promote the development of an international economic order in which restrictions would be unnecessary.

Madison's Prescription for American Economic Independence

"Madison's prescription for American economic independence did not require isolation from foreign markets as long as Americans continued to export the right kind of products – 'necessaries.' To be in a 'dependent' relationship to a foreign customer or nation the United States would have to become a producer of whimsical 'superfluities.' Madison particularly regretted to see the day when Americans should resort to the production of articles like brass buckles for export; pointing to the British example, he warned that 'in proportion as a nation consists of that description of citizens, and depends on external commerce, it is dependent on the consumption and caprice of other nations.'

Republican Ideology Requires the Independence of the Individual

"In addition to dependence on foreign customers, Madison was determined to avoid another type of dependence – that of one class of citizens upon another within the United States. Here he referred in part to the problem of wage laborers who depended for subsistence upon the will of their employers. At the core of republican ideology was an intense concern with the autonomy of 'independence' of the individual, and with the material or economic basis for the autonomy.

Dependents in a Society Will Soon Destroy Republican Government

"The individual who was 'dependent' on others for subsistence was in a particularly deplorable situation, for he could be made to serve the will of his patrons, thus sacrificing the moral integrity necessary for the exercise of proper

civic virtue. Once there were large numbers of 'dependents' in a society, republican government was doomed.

Republican Government Requires a Wide Distribution of Property among Small Independent Landowners

"It seems clear that Madison, steeped in 'republicanism,' subscribed to James Harrington's maxim that the form of government followed the distribution of wealth, particularly landed wealth, and that republican government required a wide distribution of property among small independent landowners. It was for this reason that Madison was so concerned with the potential economic and political ramifications of rapid population growth in America; in Europe, a human 'surplus' had contributed to, if not induced, the general pattern of corruption, decay, and misery.

Avoiding the Employment of Large Numbers of Wage Laborers

"Madison had no aversion to household manufactures, which constituted 'the natural ally of agriculture,' but he did not look forward to the development of large-scale manufacturing enterprises that would employ large numbers of 'dependent' wage laborers who neither owned their own land nor possessed much personal property. In his essay, 'Republican Distribution of Citizens,' which appeared in the *National Gazette* on March 3, 1792 (shortly after the delivery of Hamilton's Report on Manufactures to Congress), Madison wrote in reference to 'the regular [i.e., non-household] branches of manufacturing and mechanical industry.' that 'whatever is least favorable to vigor of body, to the faculties of the mind, or to the virtues or the utilities of life, instead of being forced or fostered by public authority, ought to be seen with regret as long as occupations more friendly to human happiness, lie vacant.'

Two Strategies Which Were Central to Madison's Political Economics and Foreign Policy

"He hoped that the United States would not be forced to turn to such manufacturing or to the production of 'superfluities' by the pressures of an expanding population, a contracting supply of land, or inadequate foreign markets for American agricultural surpluses. Expansion across the continent and the expansion of foreign markets were the two surest ways to forestall this calamity; both strategies were central to Madison's political economics and foreign policy....." (*William and Mary Quarterly*, Vol. 31, 1974, pp. 633-646.)

Part III – The Influence of Alexander Hamilton on America's Tariff System.

The influence of Alexander Hamilton on the tariff policies of the United States was absent during the debate on the Tariff Act of 1789. The Treasury Department was not established until September 2, 1789, and at this time the tariff was already

operating. Hamilton would have great influence, however, on future tariff policy. His Report on Manufactures was transmitted to Congress on December 5, 1791. It contained his arguments for strengthening the industrial base in America. He based his argument for protection on a broad nation ground. Concerning the Report, Professor Elliott states:

"...Hamilton began by defining the scope of his inquiries as relating particularly to the means of promoting such manufactures as would tend to render the United States independent of foreign nations for military and other essential supplies...."

"Hamilton's Report on Manufactures could hardly failed of having an immediate and important effect on strengthening and solidifying the protective system. Its strong Americanism and admirable temper must have insensibly but powerfully reinforced and directed the general sentiment in favor of legislative encouragement to industry. Not free from economic errors of a serious kind, these, even if perceived, would not have vitiated the appeal to national consciousness and national independence...." (Elliott, pp. 95, 113.)

A complete copy of the text may be found in Volume 3 of *Hamilton's Works*, pp. 294-416, edited by H.C. Lodge and published in New York in 1885-6.

Hamilton Seeks to Impose European System in America

Opposition to Hamilton's economic policies developed soon after his Report on Manufactures. Many colonists felt that Hamilton's economic system was a replica of the system which had corrupted England. Concerning Hamilton's program and Madison's opposition to it, Professor Drew R. McCoy stated:

"While he drew upon much of the same republican heritage as Madison, Alexander Hamilton's intellectual world had a far different texture. Influenced heavily by David Hume's defense of luxury in modern commercial society, Hamilton's republicanism was less intense, less classical, and less rigid. By the 1790s his style of thought was closer to the English 'court' mainstream than to the 'country' opposition that had predominated in Revolutionary America.

Hamilton's Economic System Considered a Replica of the System Which Had Corrupted England

"His economic system – tied to a funded debt, a national bank, and fluid capital – was a bold but politically explosive initiative in a society of 'country' republicans who were ideologically prone to view it as an insidious replica of the system that had corrupted Augustan England.

Opposition to Hamilton's Economic Policies Centered on Two Levels

"The developing opposition to Hamilton should thus be viewed on two different levels; first, on the level of strictly tactical and strategic differences among intellectuals, competing interest groups, and geographic regions, and second, on the level of ideological resistance to an alleged conspiracy to corrupt American society and smash the republican experiment by imitating British forms, manners, and institutions. This ideological resistance was triggered for Madison and many others by the scramble for the stock of the Bank of the United States on the part of speculators (some of whom were congressmen) in the summer of 1791 and the ensuing panic of March 1792.

Hamilton's Economic System Encouraged Bad Morals and Habits in Society

"Madison was outraged by what he saw to be a corrupted legislature, manipulated by Hamilton from his vantage point in the Treasury and tied to a fiscal system that encouraged bad morals and habits in the society at large. Particularly frightening to Madison in this respect was Hamilton's Report on Manufactures, issued to Congress in December 1791.

Madison's Objections to Hamilton's Interpretation of the General Welfare Clause

"In his private correspondence Madison's objections focused on Hamilton's treatment of the 'general welfare' clause of the Constitution. In urging pecuniary bounties as the best means of encouraging American manufactures, Hamilton had argued that Congress had virtually unlimited power to interpret that clause, and Madison clearly feared the ominous potential of an unrestrained and 'corrupted' legislature.

Republicans Suspected Hamilton of Attempting to Distort the Constitution in Order to Create Large Monopolies

"Staunch 'republicans' suspected that the secretary of the Treasury would use this spurious constitutional interpretation to create corporate monopolies that would ruin small producers and create un-republican inequalities of wealth. Hamilton's Report left little doubt that he was most interested in large-scale factory production; this was corroborated by his aid in the establishment of a grandiose corporate enterprise, the 'Society for Useful Manufactures,' at Paterson, New Jersey, which prompted an outpouring of antimonopoly rhetoric. There seems little doubt, moreover, that Hamilton's Report helped provoke Madison's essays 'Fashion' and 'Republican Distribution of Citizens,' which raised republican objections to certain types of manufacturing enterprises.

Hamilton Argued That an Opposite Spirit to Free Commerce Regulated the General Policy of Nations

"Beyond this, the Report on Manufactures directly challenged Madison's fundamental system of political economy and the rationale for commercial discrimination. Hamilton insisted that foreign markets, limited by the restrictions of European mercantilism, would be increasingly insufficient for the absorption of burgeoning American agricultural surpluses. He admitted that if the doctrine of perfectly free commerce were universally practiced, arguments against the development of American manufactures would have great force; he contended, however, that 'an opposite spirit' regulated 'the general policy of Nations,' with the unfortunate consequence that 'the United States are to a certain extent in the situation of a country precluded from foreign Commerce.'

Hamilton Felt the U.S. Lacked the Power to Destroy the Prevailing European System of Commercial Intercourse

"Hamilton's unstated assumption was that the United States did not have the power necessary to destroy or significantly alter the prevailing European system of commercial intercourse. He thus denied Madison's assertion that the nature of the American economy provided power sufficient to overturn British commercial restrictions; instead, he explicitly developed the general theory that nations with extensive manufactures had overwhelming advantages in their intercourse with predominantly agricultural nations.

Hamilton Favored Governmental Assistance in the Development of Domestic Manufactures

"Since Hamilton's view of England was not shaped by the assumptions of classical republicanism and Country ideology, Madison's idea of American 'necessaries' and British 'superfluities' was totally alien to his structure of thought. For Hamilton, the insufficiency of foreign markets for American surpluses pointed directly to the need for governmental assistance in the development of domestic manufactures and a more dependable home market for American produce.

The Result of Hamilton's Policy Would Be an Interdependent Economy

"The result, he argued, would be a more balanced, sectionally interdependent economy that would gradually enhance American power to the point where the United States might effectively contend for commercial reciprocity.

Hamilton's Policy Threatened to Destroy Republicanism in America

"By denying the viability of commercial coercion and asserting that the development of government-subsidized manufacturing enterprises on a large scale was necessary to insure an adequate vent for American agricultural surpluses,

Hamilton put Madison in an increasingly precarious position. He threatened to sustain the momentum already generated by the establishment of public credit (largely on his terms) and the Bank of the United States, and further consolidate the 'system' that Madison thought antithetical to republicanism in America.

Madison's Counterattack to Hamilton's Policies

"Madison's counterattack came in January 1794, on the heels of Secretary of State Thomas Jefferson's Report on Commerce, when he attempted to exploit a growing diplomatic crisis with Great Britain by reviving his program of commercial discrimination. The secretary of the Treasury had frustrated Madison's repeated attempts to enact the policy into law during each session of the First Congress, in part because his 'system,' tied to British credit and the revenue from Anglo-American trade, would not stand the risk of a serious rupture with England.

Madison's 1794 Resolutions Set Off a Momentous Congressional Debate

"Madison's 1794 resolutions touched off a momentous congressional debate in which Representative William Loughton Smith of South Carolina led the opposition by delivering a brilliant, day-long speech that had been prepared by Hamilton. Echoing the implicit assumption of the Report on Manufactures, Smith ridiculed 'the impracticability and Quixotism of an attempt by violence, on the part of this young country, to break through the fetters which the universal policy of nations imposes on their intercourse with each other.'"

Madison's Anti-British Program Was Delayed

"During the course of the debate the crisis with Britain worsened, and Madison's resolutions were put aside in favor of more appropriate measures. While he concurred in the need for additional action, Madison stubbornly maintained that his resolutions were 'in every view and in every event proper to make part of our standing laws till the principle of reciprocity be established by mutual arrangements.'" Implementation of discrimination was to be indefinitely postponed, however, for the ultimate upshot of the 1794 crisis was the Jay Treaty, which prohibited for ten years the type of anti-British commercial program Madison had championed.

Failure to Examine Madison's Motives Within the Broader Context of His Republicanism

"I would suggest that the full economic implications of Madison's aggressive commitment to commercial discrimination have been obscured by a failure to examine his motives within the broader context of his republicanism. Twentieth-century historians, anxious to prove that Madison was not a parochial or short-sighted agrarian, have stressed that his program would have promoted American manufactures and, therefore, that this objective must have been central to his

purpose. To the limited extent that he expected his policy to encourage manufactures, however, Madison clearly spoke of those 'carried on, not in public factories, but in the household or family way, which he regarded as the most important way.'

Madison Intended to Demonstrate the Ability of America's Natural Economic Power to Shatter Old World Mercantilist Restrictions

"Above all, Madison intended to demonstrate the ability of America's 'natural' economic power to shatter Old World mercantilist restrictions. His primary politico-economic goal was not to stimulate manufactures but to undercut one of the key assumptions behind Hamilton's program for industrial development and insure the opening of adequate foreign markets for American agricultural surpluses. This in turn would encourage further westward expansion and, most importantly, secure the institutional and moral base for an American political economy conducive to republicanism. Viewed in this context, commercial discrimination was part of a determined attempt to preserve and expand across space the predominantly agricultural character of American society.

Madison Possessed a System for Economic Development of America

"To this degree, Madison, as much as Hamilton, had a 'system' in which foreign policy objectives were integral to his approach to economic development and to his vision of a future America.

The Need to Extend Our Understanding of Republican Ideology into Economic Thought and Foreign Policy

"Hopefully, on a broader scale, this exploratory essay has suggested the need to extend our growing understanding of 'republicanism' and American 'republican ideology' into the areas of economic thought and foreign policy." (Drew R. McCoy, Ibid)

Even though colonists such as Madison opposed Hamilton's economic system, his Report on Manufactures did greatly aid the protection and development of industry in America.

Part IV – The Influence of Thomas Jefferson on America's Tariff System

On December 16, 1793, Thomas Jefferson submitted his Report on the condition of trade with foreign countries. Professor Elliott commented on this report.

"...The report consisted of an exhaustive examination of the restrictions upon American trade and a discussion at length of the principles upon which the United States should proceed. Jefferson found that American bread-stuffs were at most

times under prohibitive duties in England, and considerably dutied on re-exportation from Spain to her colonies. Tobacco was heavily dutied in England, Sweden, and France, and prohibited in Spain and Portugal. Rice was heavily dutied in England and Sweden and prohibited in Portugal. Fish and salted provisions were prohibited in England and under prohibitive duties in France. Whale oils were prohibited in England and Portugal; and American vessels were denied naturalization in England and France. In the West Indies all intercourse was prohibited with the possessions of Spain and Portugal. Salted provisions and fish were prohibited by England, and salted pork and bread-stuffs, except maize, were received under temporary laws only in the dominions of France, salted fish even there paying a high duty. As to navigation, American carriage of their own tobacco was heavily dutied in Sweden and France, no article not of home production could be carried to the British ports in Europe, and not even American produce could be carried to the British West Indies in American ships.

"Turning to remedies, Jefferson declared that the two methods of dealing with such restrictions he would prefer that of a friendly arrangement. Instead of embarrassing commerce under piles of regulating duties and prohibitions, he would have it relieved from all its shackles in all parts of the world, with every country employed in producing that which nature had best fitted it to produce, and each free to exchange with others mutual surpluses for mutual wants. Would even a single nation begin with the United States this system of free commerce, it would be advisable to begin it with that nation. But free commerce and navigation were not to be given in exchange for restrictions and vexations; and should any nation continue its system of prohibitions, duties, and regulations, it behooved the United States to protect its citizens by counter-prohibitions, duties, and regulations." (Elliott, pp. 124-125.)

Part V – The Influence of George Washington on America's Tariff System

In 1796, George Washington summarized the philosophy which was to guide America for 140 years in the area of economics and government.

"Against insidious wiles of foreign influence (I conjure you to believe me, fellow-citizens) the jealousy of a free people ought to be *constantly* awake, since history and experience prove that foreign influence is one of the most baneful foes of republican government. But that jealousy, to be useful, must be impartial, else it becomes the instrument of the very influence to be avoided, instead of a defense against it. Excessive partiality for one foreign nation and excessive dislike of another cause those whom they actuate to see danger only on one side, and serve to veil and even second the arts of influence on the other....

"Europe has a set of primary interests which to us have none or a very remote relation. Hence she must be engaged in frequent controversies, the causes of which are essentially foreign to our concerns. Hence, therefore, it must be unwise in us to

implicate ourselves by artificial ties in the ordinary vicissitudes of her politics or the ordinary combinations and collisions of her friendships or enmities.

"Our detached and distant situation invites and enables us to pursue a different course. If we remain one people, under an efficient government, the period is not far off when we may defy material injury from external annoyance; when we must take such an attitude as will cause the neutrality we may at any time resolve upon to be scrupulously respected; when belligerent nations, under the impossibility of making acquisitions upon us, will not lightly hazard the giving us provocation, when we may choose peace or war, as our interest, guided by justice, shall counsel.

"Why forego the advantages of so peculiar a situation? Why quit our own to stand upon foreign ground? Why, by interweaving our destiny with that of any part of Europe, entangle our peace and prosperity in the toils of European ambition, rivalry, interest, humor, or caprice?

"It is our true policy to steer clear of permanent alliances with any portion of the foreign world, so far, I mean, as we are now at liberty to do it; for let me not be understood as capable of patronizing infidelity to existing engagements. I hold the maxim no less applicable to public than to private affairs that honesty is always the best policy. I repeat, therefore, let those engagements be observed in their genuine sense. But in my opinion it is unnecessary and would be unwise to extend them.

"Taking care always to keep ourselves by suitable establishments on a respectable defensive posture, we may safely trust to temporary alliances for extraordinary emergencies.

"Harmony, liberty, intercourse with all nations are recommended by policy, humanity, and interest. But even our commercial policy should hold in equal and impartial hand, neither seeking nor granting exclusive favors or preferences; consulting the natural course of things; diffusing and diversifying by gentle means the streams of commerce, but forcing nothing; established with powers so disposed, in order to give trade a stable course, to define the rights of our merchants, and to enable the Government to support them, conventional rules of intercourse, the best that present circumstances and mutual opinion will permit, but temporary and liable to be from time to time abandoned or varied as experience and circumstances shall dictate; constantly keeping in view that it is folly in one nation to look for disinterested favors from another; that it must pay with a portion of its independence for whatever it may accept under that character; that by such acceptance it may place itself in the condition of having given equivalents for nominal favors, and yet of being reproached with ingratitude for not giving more. There can be no greater error than to...calculate upon real favors from nation to nation...." (George Washington Farewell Address, given September 16, 1796, published by the *Philadelphia Daily American Advertiser*, September 19, 1796.)

Part VI – Commercial Discrimination Against Europe

For the remainder of the 1790s, there was little impulse toward the tariff, however, Congress did pass twenty-four different acts between 1791 and 1812 which adjusted the ad valorem rate which protected America's newly developing industrial base from European domination. When James Madison became president, he continued to fight commercial discrimination in Europe and actively sought to protect America. Professor Elliott noted:

"Madison, in his first annual message, found consolation for the 'arbitrary and impolitic edicts of Europe' in the extension of useful manufactures, especially of household fabrics. A year later he congratulated Congress on the 'highly interesting extension of useful manufactures,' declaring that in a national view the change was more than a recompense for the injustice which gave the impulse required for its accomplishment. How far it might be expedient to guard the infancy of this improvement in the distribution of labor, by regulations of the commercial tariff, he cautiously added, was a subject which could not fail to suggest itself to their patriotic reflections. A year later he was more explicit, urging upon Congress the importance of a 'just and sound policy of securing to our manufactures the success they have attained and are still attaining, in some degree, under the impulse of causes not permanent.' The robbery and theft of Bonaparte, and the effect of English monopoly, he wrote Jefferson, 'are breaking the charm attached to what is called free trade, foolishly by some, wickedly by others.' Two years later when war had actually begun he declared that unrestricted intercourse with England, among other things, 'would strangle in the cradle the manufactures which promise so vigorous a growth.'

Attempts to Introduce So-Called Free Trade in America

"Even Gallatin, who long afterward boasted of having been the first free trader in America, fell easily into the current. As finance minister at a time when war was imminent he began to consider plans for such an emergency, and in his annual reports, beginning with 1807, laid down the general principles on which a war policy should be based. Without reference to manufacturers, he turned to the tariff as the best means of raising revenue, and affirmed that a considerable increase of duties was perfectly feasible. In December, 1809, Sybert of Pennsylvania secured the reprinting of Hamilton's Report on Manufactures and the adoption of a resolution by the House of Representatives calling upon Gallatin for a similar statement regarding the present condition of manufactures. Gallatin replied, April 19, 1810, with a detailed account of the existing manufactures, and an elaborate discussion of their prospects and needs which fell little behind Hamilton in the sweep of its proposed measures. The debate which Gallatin's report precipitated did not find the House wholly unprepared. The subject had been coming to the front ever since the beginning of the commercial troubles, and a decidedly friendly

attitude toward further legislation in the way of direct encouragement to manufactures had been reached.

"As the state of the country developed a more considerate feeling toward manufactures, petitions began to pour in upon Congress making firmer and more positive demands. Typical among these earlier memorials was that of the artisans and manufacturers of Philadelphia, communicated to the House December 9, 1803. On the whole, it was a rather frank confession of present weakness, with a vigorous assertion, along Hamiltonian lines, of the manufacturing resources and capabilities of the country. The fact that manufactures were already protected was scouted, as became so much the fashion later, and considering the small account which was then taken of a foreign market for American manufactures, a good deal was made of the prohibitions of European nations. 'It is with deep concern,' the memorial said, 'that your memorialists have to represent that during the long period from the peace which terminated our Revolutionary way to the present time, they have seen the wealth of the nation sent to foreign countries to purchase a thousand articles which can be as well manufactured at home, and with the raw materials.' There were a few articles of first necessity which could not be produced at home on equal terms if not prevented by certain reasons, which the memorial proceeded to give. First, foreign fashions stood in the way, especially with regard to clothing. It was impossible to keep pace with changes introduced by new patterns from foreign nations. Second, American markets were constantly over-stocked with foreign goods. The greater part of the manufactures of which iron, silk, wool, cotton, or flax, were the raw materials, ought to be established in the interior of the country, where provisions, house-rent, and fuel were cheap; but if the foreign manufacturer was permitted to keep merchants supplied with these goods on long credit, it would be impossible for citizens with small capital to persuade the storekeeper to purchase his goods for ready money. The third reason was the unjust competition with foreign manufacturers – unjust because the finished articles of our infant manufactures produced from raw materials found in the United States were generally either prohibited in foreign countries or more highly tariffed than similar goods coming into the United States. An infant manufacture must have some protection to enable it to contend with an old establishment; yet in the United States the reverse had taken place. Fourth, the expense necessarily attending the commencement of complicated manufactures. Fifth, injudicious duties on raw materials. 'It is a position,' the memorial went on confidently, 'that will not be denied by the greatest enemies to domestic manufacturing, that as soon as any particular branch shall be established, foreign goods of the same kind ought to be prohibited or discouraged; and this is certainly the case with every manufacture of leather and fur; and yet your memorialists would be glad to know by what mode of reasoning it can be made to appear that the hatter and shoemaker, who have spent their youth in acquiring those arts, should every five or six years, be ruined by an excessive importation of foreign hats or shoes which may perhaps be the remaining estates of some European bankrupt?'

"The memorial denied that the United States were too young to commence the manufacture of clothing, or that the development of the West would be retarded. As to the supposed vice of manufacturing towns, the facts of European manufactories denied it. The idea that if a manufacture did not take root of itself it was not fit for our climate or state of society, was true only of simple manufactures; where a combination of skill and capital was required it could only be secured by the fostering care of government. If there were not hands enough in America, it only proved the necessity of protective tariffs, which alone could give encouragement to men of genius to pursue complex and difficult manufactures. Protection would benefit agriculture because the progress of agriculture was always in proportion to population, and agriculture alone would never concentrate population. Revenue likewise would be increased owing to the increase of population and increase of demand for luxuries; for nothing could be more appropriate than to tax foreign fashions and foreign luxuries." (Elliott, pp. 137-141.)

Part VII – The Genius of the U.S. Constitution

The United States Constitution in Article I, Section 8, Clause 3, gave Congress the power to regulate trade among the individual states. When the Constitution was implemented in 1789, it automatically did away with commercial restrictions of one state against another. In other words, it provided that commerce was to flow freely between the states. There was to be no export taxes from one state to another. These constitutional provisions created a common market within the United States. Commenting on this system, Professor Elliott stated:

"...No cause, perhaps, had more promoted in every respect the general prosperity of the United States, than the absence of those systems of internal restrictions and monopoly which continued to disfigure the state of society in other countries." (Elliott, p. 148.)

Protectionism Is Based on Economic Reality

This statement demonstrates the genius of the founding fathers in providing for a great internal common market. Government was not to interfere in restricting commerce and industry or in regulating it. It simply was to insure the free flow of commerce. The founders realized that the concept of free trade was a true concept and provided that free trade practices were to be operable within the United States. The founders favored free trade among other nations, however, the nations of the earth were not practicing free trade. They were engaged in managed trade. And they are still today. It would have been national suicide for America to practice free trade while other nations refused to do so. For this reason protectionism is an absolute necessity in the real world of geopolitics.

The Need for Protectionism

Probably one of the greatest statements on the need for protectionism came from U.S. Representative Seybert of Pennsylvania. Speaking in Congress in 1810, he said:

"Unless protected for a time, it is not to be supposed that our manufacturers can compete with the enormous capital which foreigners can command, especially when connected with their skill and experience. Foreigners do all they can to destroy our infant establishments. They conspire and sell their articles for a loss for a time in our markets – when they have obtained their object by putting a stop to our efforts, they raise their prices and furnish us with articles of an inferior quality. They do not stop here, but resort to a system of deception, which could hardly be imagined. As soon as our establishments furnished our markets with a supply of excellent fabrics, the agents of foreign manufactures procured patterns of such as were most esteemed. These they with every possible haste dispatched to Europe, in order to have imitations as to appearance, but very inferior in quality – afterward sold as American fabrics at reduced prices.' (Elliott, pp. 152-153.)

This comment adequately summarized the views held by a majority of the colonists at that time, especially in the North.

Part VIII – The Lessons of the War of 1812

As noted by Professor Elliott, the tariff system designed by the founding fathers was to "confirm their independence, make them respected abroad, promote agriculture, bring the genius of the people into operation, reveal the immense resources of the country, and make every individual of the nation happy, respected, and independent." (Elliott, p. 154.)

It was a system that was absolutely necessary in light of the policies adopted by foreign nations. The founding fathers were desirous, as just noted, to practice free trade, however, foreigners were not. The early founders felt that the policies of Europe were simply designed to destroy their industrial base and enslave them to ancient practices of commerce.

An Attempt to Subjugate America

War was declared on June 18, 1812. The war was an attempt by the merchants of England to make America dependent upon Europe for its manufactured products. However, just the opposite occurred as a result. Inasmuch as trade was stopped during the war, the United States began manufacturing those items necessary for the needs of the people. America's manufacturing industries grew tremendously. In fact, their growth during this period was considered extraordinary. One of the many lessons learned as a result of the war was that import duties or tariffs were essential to the security of the nation.

A Victory for Economic Independence

Concerning the resounding victory for economic independence acquired from the War of 1812, Professor Elliott notes:

"...All other causes leading to the exaltation of the protective system were small compared to the extraordinary growth of manufactures during the war. Non-intercourse was practically complete, and under the stimulus of a ready home market and advanced prices, the government itself a large purchaser, capital turned itself into manufacturing plants with astonishing rapidity. The papers teemed with notices of new manufactories. Statistics are not available and estimates vary greatly, but the growth was unprecedented. In 1810, according to Niles, there was not a single cotton spindle in operation in Baltimore; three years later there were 9,000. More than thirty charters were granted to manufacturing companies in 1813, in New York State alone, and as many more in Massachusetts the following year. In 1815 there were a hundred and forty cotton manufactories in the vicinity of Providence, R.I., operating 130,000 spindles. Wilmington, Del., had thirty cotton manufactories. Pittsburg, Steubenville, Cincinnati, Lexington, Ky., Rochester, and many other places either sprang into existence during this period or received an extraordinary impulse forward. The number of cotton spindles in operation in the United States, which had increased from 3,000 in 1798 to only 20,000 in 1808, was now estimated at 500,000, employing \$40,000,000 capital, 100,000 workmen, and paying \$15,000,000 wages yearly. The same estimate placed the capital employed in the woolen manufacture at \$12,000,000 with 50,000 workmen, and an annual product of \$19,000,000. The total value of domestic manufactures, estimated in 1810 by Gallatin at \$120,000,000 was placed by Tench Coxe, in 1813, at \$200,000,000, and grew rapidly larger.

"Much of this enormous expansion was due to the advance in prices, which also accounts for a large part of the additional value of manufactured products. Thus wool rose in price from seventy-five cents to four dollars per pound, and cloth from eight to fourteen and even eighteen dollars per yard. Hyson tea advanced fifty per cent, white Havana sugar half as much, while salt rose from fifty-five cents to three dollars per bushel. Wages in like manner increased from twenty to fifty per cent.

"Prejudice against domestic fabrics seemed about to disappear. Governors in their annual messages began to notice these new manufacturing establishments and to speak of them in congratulatory terms. The war itself took a decidedly industrial turn. In spite of waste and expense, and almost unbroken disaster, prosperity was general and the land resounded with the hum of industry and improvement. Commerce alone was sullen and in ruins; but commerce by an opposition as unpatriotic as it was ill-timed was sealing its own fate. Almost unconsciously the idea grew that the struggle was, after all, not so much for "free trade and sailor's rights," as for industrial independence. New England protesting against the war

was told that her people must be weaned from their commercial intercourse with England before they could possess any generous American feeling. Complaining of the exorbitant prices charged for domestic manufactures, they were reminded that if Massachusetts, under foreign influence, had not committed the gross political blunder of discountenancing manufactures thousands of her artisans and mechanics might have been retained and rendered unnecessary hundreds of the establishments then springing up as by magic in the Middle and Western States. In the peace negotiations all were silently abandoned; and when the British sloop Favorite sailed into New York Harbor late one Saturday night in April, 1815, bearing news of Jackson's victory at New Orleans and of the signing of the Treaty of Peace, the bells which pealed out the twice glad tidings proclaimed, not indeed the triumph of 'free trade and sailor's rights,' but the supremacy of Nationalism and the dawn of a new industrial era.'" (Elliott, pp. 160-161.)

"No sooner had the peace treaty been signed when America's newly developed manufacturing industries sought further protection against the flood of European products which began to arrive at the nation's harbors. Professor Elliott describes the activities of Congress during this period:

"The return of peace at the beginning of 1815 brought the manufacturers face to face with a serious danger. War had been their harvest time. Favored by double duties and abnormal conditions their industry had attained a marvelous though not always safe development. To many of these new enterprises, solely the result of unnatural stimulus, not yet deeply rooted or wisely administered, the renewal of old relations with Europe meant instant destruction. By limitation, the double duties were to expire one year after the conclusion of peace, and unless Congress intervened promptly and effectually their individual ruin was certain.

A New Attitude Toward Manufactures

"Apparently there was little to fear. Unable as they were to bear competition in the open market, the struggle for government intervention was no longer to be waged by a few weak industries. The manufacturing interest had become important and powerful, alive to its needs, and ready to take its part in legislation rather than to humbly petition an indifferent legislature. More than all else, the country had taken a new attitude toward manufactures. The only actively hostile section – New England – was thoroughly discredited by its disloyal attitude during the war. The indifference and hostility of the South was disarmed. Holding the scales more evenly than the impetuous manufacturing centers of the North, resisting what it deemed unnecessary demands, the South yet stood out generously in the enthusiasm of the new Nationalism, in the persons of Lowndes, Cheves, Calhoun, Crawford, and others, prepared to place upon a firm basis the manufactures which war had called into being. Wholly aside from the ordinary question of protection the argument for these was irresistible. They were the one material and tangible result of the war, and to suffer them to perish through British competition was to

surrender all that had been gained. From suffering and mortification, as Dallas put it, had sprung the means of future safety and independence, in those manufactures which private citizens, under favorable auspices, had constituted the property of the nation.

Trading with the Enemy

"This new manufacturing interest began early to fortify itself against the return of peace. As new industries sprang up, petitions were promptly laid before Congress praying for new duties, for the permanence of the war duties, and for certain prohibitions. When, after the war began, merchants asked for a remission of the bonds given on recent importations of British goods, they were sharply told that at a time when the people were fighting for commerce and free trade, no class of citizens could be licensed to carry on a trade with the enemy. The time had come for acting with energy. Non-importation, embargo, and non-intercourse had been too weak because the mercantile class were strong.

"An attempt was made in 1814 to secure a new tariff 'conformably to the existing situation of the general and local interests of the United States,' and the partial suspension of non-intercourse in the interest of revenue, as well as the repeal of the embargo, were resisted as hostile to the manufacturing interest.

Protectionism – The Key to Independence and Wealth

"In laying before Congress the treaty of peace, February, 1815, Madison called attention to the 'unparalleled maturity' attained by manufactures, and 'anxiously recommended this source of national independence and wealth to the prompt and constant guardianship of Congress. This recommendation was repeated in his annual message in December of the same year, though in more guarded phrases. In adjusting the duties on imports to the object of revenue, the influence of the tariff on manufactures would, he said, necessarily present itself for consideration. However wise the theory which would leave to the sagacity and interest of individuals the application of their industry and resources, Madison went on in his own stereotyped phrases, there were in this, as in other cases, exceptions to the general rule. And further than these phrases he did not get.

Introduction of a New Tariff Bill

"But it was not to Madison that congress or the country looked for direction. The acquiescence of the President was enough. To Dallas, Secretary of the Treasury, the manufacturers had already turned. Six days after the treaty of peace was ratified, the House, February 23, 1815, called upon Dallas to report a general tariff bill at the next session of Congress. In making up his reply the Secretary was not left in doubt as to the fears and wishes of the manufacturers. Two days after the adoption of the resolution just referred to, Seybert presented a petition from Philadelphia which, while setting forth the joy and exultation with which the

petitioners were filled, for the inestimable blessing of honorable peace, expressed also their anxiety and dread for the fate of the infant manufactures 'whose existence and prosperity were of vital import to the whole community.' Yet they looked forward with hope to the permanent establishment of such manufactures as should render the United States independent of foreign nations for the necessaries and comforts of life. This petition was an earnest of many more and of addresses and newspaper appeals, setting forth with more or less definiteness the measures which it behooved Congress to adopt. A circular letter from the cotton manufacturers of Providence, R.I., dated October 20, 1815, declared that their mills had been erected at great expense, on account of the interruption of commerce and in reliance on the favorable disposition of the government toward domestic manufactures. Already the pressure had been so great as to force many to contract their business and some to suspend entirely. The present free and unrestricted admission of cotton fabrics of foreign production not only extinguished the hope of a reasonable profit in the future, but threatened the speedy destruction of the establishments already erected. It was suggested that the cheap cottons of India be prohibited and the duties on those of coarse texture from other parts of the world increased. As to the favorite maxim of some that commerce should be free and unrestricted, it might be a good general rule, but it was far safer to follow in the beaten track of successful experience. All manufacturing nations protected their citizens, and especially in England had this policy been crowned with unexampled success.

"In his annual report in December, 1815, Dallas had proposed the extension of the double duties until June 30, 1816, in order to give time for the elaboration of a new tariff bill; and after some discussion Congress agreed to this plan. February 13 he transmitted his reply to the resolutions of the previous February, closing with a carefully prepared schedule of new tariff rates. This, after being worked over in the Ways and Means Committee, was embodied in a bill and introduced into the house March 12 by Lowndes of South Carolina. Debate began March 20 and continued until April 8, when the bill was finally passed by a vote of 88 to 54. April 20 it passed the Senate with some amendments, and April 27 received the approval of Madison.

Purposes of the New Tariff Bill

"In drawing up his tariff bill Dallas set before himself three objects: To secure the necessary revenue, to conciliate the interests of agriculture, manufactures, trade, and navigation, to render the collection of duties convenient, equal, and certain. The interests of agriculture, he said, stating the general problem, required a free and constant access to a market for its staples, and a ready supply on reasonable terms of the articles of use and consumption. But the national interest might require the establishment of a domestic in preference to a foreign market and the employment of domestic instead of foreign labor in furnishing the necessary supplies. There were few if any governments which did not regard the

establishment of domestic manufactures as a chief object of public policy. Certainly the United States had always so regarded it, though it was emphatically during the period of the restrictive system and of war that the importance of domestic manufactures became conspicuous to the nation, and made a lasting impression upon the mind of every statesman and patriot. The weapons and munitions of war, the necessaries of clothing, and the comforts of living were at first but scantily provided. The American market seemed, for a while, to be converted into a scene of gambling and extortion. But out of these circumstances of suffering and mortification had sprung the means of future safety and independence. Whatever might be said in favor of the maxim that individuals should be left free to follow their own employment, it was sufficient to observe that American manufactures, particularly those introduced during the restrictive system and the war, owed their existence exclusively to the capital, skill, enterprise, and industry of private citizens. The demand, when cut off from foreign supplies, was a sufficient inducement for this investment of capital; but this inducement must fail when the day of competition returned. Upon that change in the condition of the country the preservation of the manufactures which private citizens, under favorable auspices had constituted the property of the nation, became a consideration of general policy, to be resolved by a recollection of past embarrassments, by the certainty of an increased difficulty of reinstating, upon any emergency, the manufactures allowed to perish and pass away, and by a just sense of the influence of domestic manufactures upon the wealth, power, and independence of the government.

Three Classes of Manufactures

"There were three classes of manufactures to be considered. First, those firmly and permanently established and which wholly or almost wholly supplied the demand. Upon these duties might be freely imposed wholly or nearly to prohibition without endangering a scarcity in the supply, while the competition among the domestic manufactures would sufficiently protect the consumer from exorbitant prices. By imposing low duties, importation would be encouraged and revenue increased; but without adding to the comfort or deducting from the expense of the consumer, the consumption of the domestic manufacture would be diminished in an equal degree, and the manufacture itself perhaps entirely supplanted. Second, manufactures which recently or partially established did not at present supply the demand, but which with proper cultivation could be made to do so. These were a more embarrassing class, but Dallas thought it in the power of Congress, by a well-timed and well-directed patronage, to place them in a very short time upon the footing on which manufactures of the first class had been so happily placed. The sacrifice could not be either great or lasting. The agriculturist whose produce and whose flocks depended upon the fluctuations of a foreign market, would have no occasion eventually to regret the opportunity for a ready sale for his wool or his cotton in his own neighborhood, and it would soon be seen that the success of American manufactures, which tended to diminish the often excessive profit of

imported articles, did not necessarily add to the price of articles in the hands of the consumer. The amount of duties must be such as to allow the manufacturer to meet the importer in the American market upon equal terms. Third, manufactures so slightly cultivated as to leave the demand almost wholly dependent upon the foreign supply. The only question was to adjust the rates to the revenue required, except that raw materials coming under this classification should be free.

"The features of Dallas' proposed tariff were the enlarging of the ad valorem list from three groups at 12 1/2, 15, and 20 per cent to eight groups at 7 1/2, 15, 20, 22, 28, 30, and 33 1/4 per cent; the increase of specific duties by about 42 per cent; and, most important of all, in the article of coarse cottons, the insertion of a minimum, by which, as far as the custom-house was concerned, no quality was to be regarded as costing less than 25 cents per square yard. Except in the case of coarse cottons the new rates on articles which it was desired to protect fell slightly below the double rates of the war...." (Elliott, pp. 163-170.)

Part IX – The Difficult Period – 1865-1934

From the War of 1812 until the Civil War, America's industrial base continued to grow rapidly. Inventions literally sprang from the minds of enterprising Americans. Beginning in 1820, it seems the nation became alive as manufactures, industry and agriculture spread throughout the once barren land. The American tariff system was alive and well. It would sustain the government until 1913 and protect American industry until 1934. The founders had done their job remarkably well. Political and economic independence had been achieved and maintained. The founder's objective of promoting the prosperity and happiness of the people had been accomplished. The idea of free trade in light of European socialism was utopian and the American people realized these facts and acted accordingly. Tariffs had officially been a part of the American system since the beginning of the government in 1789, and they appeared to be a viable attribute of congressional supervision for many years to come.

Another Attempt to Subjugate America

During the Civil War, it was discovered that the merchants and bankers of Europe were again striving to destroy United States independence by subjugating America to European intrigue and domination. President Lincoln, aware of the European attempts to destroy the American system of government, guided the nation safely through the war. He was just about to reform the nation's financial system when he was assassinated.

America's industrial base exploded after the Civil War as westward expansion opened a new era of prosperity and development. Government receipts from custom duties were high. The Tariff Act of 1872 reduced the average rate on dutiable items which had been raised in 1867 and 1870 to meet the costs of the

war. Congress established the first tariff commission during this era and in 1883, Congress passed a new law based upon their recommendations.

Free Trade Proponents Arise in America

Between 1891 and 1906 the theory of protectionism continued to serve the nation with the average rate reaching 46.73 percent. In 1900, tariff rates consistently began to drop. New forces began to slowly emerge in America. These forces were proponents of the ancient philosophy of socialism and central economic planning. Slowly they began to work themselves into the fabric of the American government, industry, etc. Dramatic policies followed this new ideological shift in American ideals.

Powerful Forces Unleash an Attack upon Protectionism.

In 1908, the Republicans announced a major change in America's tariff system. Tariff rates were now to be established by computing the costs of production at home and abroad. To some in America it signaled that the theory of free trade was being prepared for adoption as official United States government policy. The stage was being set. European philosophies had been successfully introduced in the United States. America's constitutional government and free enterprise system began to be attacked by influential citizens and high government officials. Free trade literature began to appear in newspapers, magazines, government pronouncements, etc. All the time tariffs were gradually lowered.

Progressive Income Tax Introduced into America

In 1913, the Democrats were successful in passing the progressive income tax in the form of the Sixteenth Amendment. For the first time in American history, government revenue was divorced from tariffs. The Underwood Tariff Act was subsequently passed where full use was made of the 1908 tariff changes. The Democrats were not able to significantly lower tariffs, however. It should be noted that import duties or tariffs were the predominant source of government revenue from 1789 until 1913.

Congress Passes Tariff Act of 1921

World War I interrupted trade and threw the Western world into orchestrated disarray. After the war, imports began flooding America. Foreign producers had begun dumping agricultural products onto the market below the cost of production. Foreign governments also began widespread devaluation of their currencies as a means of offsetting duties imposed upon their goods. The farmers of America united to protest these practices. Congress reacted by passing the Emergency Tariff Act of 1921. Tariffs were raised slightly and protection was once again assured but only for a short while. The proponents of free trade were now beginning to surface in high places in the United States.

A New Tariff Concept Introduced in America

In 1922, a new tariff concept called "flexibility" was introduced. The President was authorized to increase, or reduce, existing tariff rates by not more than 50 percent after an investigation by the Tariff Commission. Few changes were made between 1922 and 1934, however, changes were being prepared behind the scenes. It was a matter of timing. America had been flooded with propaganda advocating socialism, internationalism and free trade for twenty years. The American people and members of Congress were being prepared by the postwar planners for major changes.

A Major Transformation of American Government

The Great Depression humbled the American people. They were ready for a white knight in shining armor to save them from their economic woes. Franklin D. Roosevelt was introduced to the people as such a man.

The transformation of American government from a Republic to a Democracy had been accomplished in the periods between 1910 and 1930. The stage was now being set to change it from a Democracy to a Welfare State. Massive changes in ideology which had been planned and readied for implementation were introduced into the mainstream of American ideology.

Congress Eliminates Protection to America's Industrial and Manufacturing Base

Roosevelt was planning to socialize the United States, and he did just that. Immediately after his election, plans were introduced for major tariff revision. In 1934, Congress enacted the Reciprocal Trade Agreements Act as an amendment to the Smoot-Hawley Tariff Act. The president was authorized to enter into trade agreements with foreign countries for three years without congressional approval. The president, with the aid of the State Department, began to immediately negotiate tariff reduction with other nations.

Cordell Hull Promoted Trade Agreements Act

The Trade Agreements Act had been presented to the nation by Cordell Hull, Secretary of State. Years earlier, it was Hull who introduced the Sixteenth Amendment as a congressman. Hull guided the Amendment to its passage and fought against a ten percent maximum limit on taxes. It was also Hull who proposed an International Trade Organization in the U.S. House of Representatives during World War I. The ITO would later emerge as the General Agreement on Tariffs and Trade in 1947. And in 1994 the GATT was transformed into the World Trade Organization.

The Trade Agreements Act Was Unconstitutional

The importance of the 1934 Trade Agreements Act cannot be underscored. The constitutional ramifications themselves are staggering. It is the constitutional responsibility of the legislative branch to fix duties or tariffs and to regulate commerce with foreign nations. Congress, by passing this Act, transferred its responsibility in this area to the executive branch. The Trade Agreements Act placed America's industry under the domination of the executive branch and more especially the State Department. The State Department had already demonstrated by its actions that it favored the new concepts of "internationalism" and "socialism."

The Term Free Trade is a Misnomer

It should be noted that the term "free trade" is a misnomer. Free trade as utilized by the elite hierarchy of the Western world does not mean genuine free trade. It means government control and regulation of the industry and economy of a nation. The term was invented by merchant bankers in London to deceive and manipulate the inhabitants of the world. Free trade is simply another term for central economic planning or "managed trade" on a global basis.

One of the most outspoken critics of free trade in the 1950s was George W. Malone, a United States Senator from Nevada. Malone was a professional engineer, had served as a special consultant on strategic and critical minerals to the Senate Military Affairs Committee and to the Secretary of War during Roosevelt's third and fourth terms. He was an observer in San Francisco when the United Nations' system was established. He was elected to the Senate in 1946 and rose to be chairman of Minerals, Materials and Fuels Economics Subcommittee of the Senate Committee on Internal and Insular Affairs.

Part X – The Constitutionality of the 1934 Trade Agreements Act

Concerning the constitutionality of the 1934 Trade Agreements Act, Senator Malone stated on February 28, 1955:

"Article I, section 1, of the Constitution states:

"All legislative powers herein granted shall be vested in a Congress of the United States, which shall consist of a Senate and House of Representatives.

"Section 8 of the same article provides that the Congress shall have power to lay and collect duties, imposts, and excises, meaning tariffs or import fees – and to 'regulate commerce' – trade – 'with foreign nations.'

"Section 8 further says that the Congress shall have power to make all laws which shall be necessary and proper for carrying into execution the powers which had been enumerated.

"Section 8 does not provide that an appointive administrative officer in an executive department shall, in order perhaps to buy the loyalty of another nation, have the authority to give it an industry out of the wealth of the United States of America. To show that the State Department had in mind doing just that, I wish to point out that several times the State Department has suggested that when by such action a domestic industry is destroyed and unemployment is created in the United States, the Congress of the United States should appropriate money to compensate investors and provide unemployment insurance for the unemployed, and also pay transportation to enable workers to migrate to other areas where they might take other jobs. If there could be a concept lower than that, Mr. President, the senior Senator from Nevada cannot possibly imagine what it would be.

"I know of no clearer language than what I have quoted from the Constitution that could have been used to show that our constitutional fathers meant it when they said that all legislative powers to lay and collect duties and to regulate foreign commerce were vested in the Congress.

Executive Branch Now Lays Tariffs, or Duties, in Derogation of the Constitution

"The Constitution did not give to the executive branch, or to the State Department, the power, or any power, to lay duties, or tariffs, but that is precisely what they have been doing ever since the Trade Agreements Act was approved on June 12, 1934.

"It did not give to the executive branch or to the State Department power, any power, to regulate commerce with foreign nations, but the Department has been doing that, too, since the Trade Agreements Act was enacted.

"It has been doing those things under the assumed authority of the Trade Agreements Act and outside of that assumed authority, as I shall presently show.

"It has taken over legislative functions; which the Constitution prescribes to the Congress and to the Congress alone.

Attempts by Congress to Delegate Legislative Powers Held Unconstitutional

"The Constitution places these powers in Congress, and nowhere does it say that Congress may delegate to the executive branch of Government those powers.

"The Supreme Court has stated that the Congress may not delegate legislative powers to the executive branch.

"It has declared acts void and unconstitutional in which the Congress did attempt to delegate its legislative powers.

"It has declared unconstitutional acts in which the Congress attempted to delegate its powers to regulate commerce.

"It has declared unconstitutional acts in which the Congress sought to delegate its taxing power to the executive branch, and duties and imposts are nothing more than taxes on imported products.

"It has declared unconstitutional acts in which the Congress sought to, and did, enact legislation in violation of the due-process clause of the fifth amendment, under which no person in America may be deprived of life, liberty, or property without due process of law.

Trade Agreements Act Depriving Citizens of Property Without Due Process

"The Trade Agreements Act is being used by the State Department today, and for years past has been used by the State Department, to deprive countless Americans of the use and benefit of their property, and, to a considerable extent, of their liberties, without due process of law.

"Today thousands of textile workers, petroleum workers, machine-tool workers, and miners, millworkers, railroad and factory workers, loggers, fishermen, yes, and farmers, are in distress by reason of trade agreements entered into by the State Department with foreign slave-wage nations under the assumed authority of the Trade Agreements Act of 1934.

"The State Department remade the industrial map of America in its own image.

"The genesis of the Trade Agreements Act was very simple. In 1933 an administration took office which sought to exercise all power over the Nation's economy, and in particular to control production, money, commerce, and trade, especially trade." (*Congressional Record*, U.S. Government Printing Office, Washington, D.C., February 28, 1955, p. 2226.)

Major Aspects of the New Deal Declared Unconstitutional

In 1933, President Roosevelt sought to exercise power over the nation's economy, money, commerce and trade. With the assistance of Congress, he was able to begin a new era – the era of socialization of America. Ten Acts of the 73rd Congress were subsequently declared unconstitutional by the Supreme Court. In the case of *Schechter Poultry Corporation v. United States* in 1935, the Court held in an unanimous decision that the National Recovery Act was unconstitutional. The executive branch had sought to establish its own rules for governance of America's

trade, industry and transportation. Chief Justice Hughes wrote the opinion in the case of Schechter Poultry Corporation. He said:

"Congress cannot delegate legislative power to the President to exercise an unfettered discretion to make whatever laws he thinks may be needed or advisable for the rehabilitation and expansion of trade and industry....

"The principle forbidding Congress to abdicate, or to transfer to others, the essential legislative functions with which it is vested by Article I, Section 1, and Article I, Section 8 paragraph 18 of the Constitution, has been recognized by the Court in every case in which the question has been raised....

"The Constitution provides that 'all legislative powers herein granted shall be vested in a Congress of the United States, which shall consist of a Senate and House of Representatives' (Article I, Section 1). And the Congress is empowered 'to make all laws which shall be necessary and proper for carrying into execution'[its general powers. (Article I, Section 8, paragraph 18.) The Congress manifestly is not permitted to abdicate or to transfer to others, the essential legislative functions with which it is vested." (Quoted in *Congressional Record*, February 28, 1955, pp. 2226-2227.)

Congress Increases the Power of the Executive Branch

The 73rd Congress abdicated its constitutional responsibility when it passed the 1934 Trade Agreements Act whereby regulation of the national economy and foreign trade were passed to the executive branch. The minority views of the Report of the House Ways and Means Committee on the 1934 Trade Agreements Act also raised a number of serious questions. The report stated:

"...The Constitution of the United States provides in section I of article I that all legislative powers therein granted shall be vested in the Congress. Section 8 of the same article provides, among other things, that Congress shall have the power to 'pay and collect taxes, duties, imposts, and excises' and to 'regulate commerce with foreign nations.' Article II lodges the executive power of the Government in the President, and the judicial power in the Supreme Court.

"The Supreme Court has many times held that under this division of powers, it is a breach of the Constitution for Congress to delegate its legislative powers to the Executive, or to invest itself with either executive or judicial power. This bill gives the President broad discretionary power in fixing tariff duties, and the minority submit that it is unconstitutional....

"Those sponsoring the bill attempt to argue that it is not a delegation of legislative power, but rather one of administrative power, against which there is of course no constitutional inhibition. They point to the fact that by the terms of the bill the President may not increase or decrease an existing duty by more than 50

percent, but this limitation only goes to prove the contention of the minority that it is the President who fixes tariff duties under the bill and not Congress. They also attempt to show that the bill lays down a rule of conduct to guide the President in fixing duties, but the minority submit that he is guided by his own discretion....

"...It (the trade-agreements bill) delegates to the President discretionary legislative power on tariff making – not simply an administrative power to apply a definite formula laid down in advance by Congress, such as is given under present flexible tariff provisions – and thereby provides for an unconstitutional delegation of the supreme taxing power of Congress.

"...It has no counterpart in past legislation, Republican or Democratic, since in each previous reciprocity measure Congress has either fixed in advance the concessions or retaliations the President might use as a basis for negotiation, or it has reserved the right to both the House and Senate to approve or reject any treaty or agreement entered into by him.

"...Any previous legislation giving the President authority to put a prescribed legislative policy of Congress into effect upon the finding by him that a certain state of facts existed is no precedent for giving him the power under similar conditions to put into effect rates of duty which he himself prescribes.

"...If the expansion of our foreign trade seems desirable, it should be accomplished by existing constitutional means....

"It (the act) contemplates the abandonment of the principles of protection for domestic industry, agriculture, and labor by allowing existing duties to be modified without reference to the difference in cost of production of domestic and foreign articles....

"...It places in the hands of the President and those to whom he may delegate his authority the absolute power of life and death over every domestic industry dependent upon tariff protection....

"The bill gives no indication as to what domestic industries he may put upon the auction block in the negotiation of foreign-trade agreements, nor were any of the accredited representatives of the administration appearing before the committee willing to give such an indication except in the most general and meaningless terms....

"If the administration wants to setup a cabinet form of government with power in the executive to legislate by president decree, than it should first submit the proposition to the people through a proposed constitutional amendment...." (Minority Report, Hearing. The Trade Agreements Act of 1934. House Report 1000. Also quoted in *Congressional Record*, U.S. Government Printing Office, Washington, D.C., February 28, 1955, pp. 2228-2229.)

America Enters a New Era of Free Trade

From 1934 to this day tariff policy has been set by the executive branch working in close alliance with the European nations and powerful banking and corporate leaders. Tariff rates, of course, continued to drop as America entered the new era of so-called free trade or managed trade. The tariff system devised by Madison and others was discarded as well as the principles of economic and political independence. Beginning in the 1920s with the League of Nations, the Eastern elite sometimes called the Eastern establishment, began preparing America for existence in a global society. American political and economic sovereignty were to be transferred to international institutions in a piecemeal process. When the American people and the United States Senate failed to ratify the Versailles Treaty, the Eastern establishment accelerated its educational efforts to alter the values, principles and ideology of America. The large tax-exempt foundations began financing individuals and institutions whose purpose it was to change the ideology of America from its past to one where secularism, socialism, internationalism, etc., would be readily accepted. A multitude of organizations appeared and new textbooks, etc., began debunking the founding fathers, constitutional government, free enterprise, economic and political independence, etc. By the late 1940s, the views of the American people had been successfully altered to the point that they accepted the New Deal socialism of Roosevelt, a European banking system (Federal Reserve System) and membership in the United Nations and the Bretton Woods System. Political and economic sovereignty were transferred gradually and in a piecemeal fashion to international bodies and free trade practices were accepted.

Part XI – The Proposed International Trade Organization

Since 1934 the Executive Branch had been thinking of ways to expand the Reciprocal Trade Agreements program. The wartime discussions between the United States and England laid the foundation for a meeting in September of 1943 in Washington, D.C. The meeting discussed the possibilities of multilateral conventions whereby a trade code and an international institution to regulate these codes could be established. The trade policy figures had in mind the creation of an International Trade Organization. Robert E. Hudec outlined the history of the development of the ITO in 1975.

"The creation of the ITO Charter required almost five years from the initial planning of the 1943 seminar. Not all the time was spent on trade policy, for the ITO Charter also embraced other matters such as employment policy, economic development, commodity agreements, and restrictive business practices. It will suffice to deal only with the trade policy rules, which were always the core of the effort.

"The 1943 seminar was followed by more than a year's delay, during which the United States and United Kingdom were occupied with internal debate and with consultations involving other key governments. Formal government-to-government conversations resumed in 1945. In December of that year the two governments produced a detailed set of 'Proposals' on which the negotiations for an International Trade Organization could be launched. The Proposals were accepted by the U.N. Economic and Social Council in early 1946. A 'United Nations Conference on Trade and Employment' was officially convened, and a Preparatory Committee, consisting of 18 key governments, was appointed to prepare a draft Charter for consideration by the plenary Conference.

Formation of the ITO Charter

"The formal negotiation of the ITO Charter took approximately 17 months – from October 1946 to March 1948. The drafting began on the basis of a 'Suggested Charter' submitted by the United States. The Preparatory Committee met in London during October and November of 1946, and, working from the Suggested Charter, it produced a first draft of its own. A technical drafting committee then met in New York in January and February of 1947 to produce a second draft. The full Preparatory Committee met a second time in Geneva from April to late August of 1947, preparing a third and final draft for submission to the plenary Conference. (It was here at Geneva that the participants paused to create GATT.) The plenary Conference opened at Havana on November 18, 1947. The Final Act establishing the text of the ITO Charter was signed on March 24, 1948....

The Trade Policy Rules of the ITO Charter – The Process of Internal Clearance

"The code of conduct outlined at the 1943 seminar had been fairly rigorous. All forms of nontariff trade restriction were to be prohibited absolutely, the only exception being the authorization to use quantitative restrictions in times of balance-of-payments crisis. Other distortions of normal market forces such as export subsidies were to be eliminated, or, as in the case of state trading, made to conform to market principles. Tariffs would remain, but they were to be progressively reduced by negotiation. Discriminatory tariff rates, such as the Commonwealth Preference, were to be negotiated away. The trade agreement experts had agreed that these objectives should be cast in detailed legal obligations that would allow no evasion.

Trade Officials Were Forced to Accept a Number of Modifications

"Trade officials of the two governments were soon forced to accept a number of modifications. The possibility that the United States might make a substantial across-the-board reduction in tariffs had to be abandoned in the face of opposition by the Congress. By 1945 the United States Administration had managed to secure legislative authority for a handsome 50 percent reduction in existing tariffs, but it

was committed to use that authority under the old practice of item-by-item negotiations designed to preclude tariff reductions that might injure U.S. producers. The Administration was also pledged to insert an 'escape clause' in all forthcoming trade agreements, reserving the right to withdraw particular concessions at a later date if they did in fact injure domestic producers.

"Slippage occurred elsewhere. The U.S. Department of Agriculture made the rather obvious point that the U.S. farm program, which supported farm prices well above world price levels, could not survive unless the domestic markets were protected against world prices by means of quantitative restrictions. The new U.S. position found a sympathetic audience in the British trade experts, who had found that they too had a 'farm problem.'

"Farm programs also created problems with the idea of prohibiting export subsidies. The 1943 meetings had been somewhat reserved on this question, but the U.S. team of experts had gone so far as to recommend 'provisions looking to their elimination.' The likelihood of very large postwar farm surplus made this objective seem more and more remote.

"Developments followed pretty much the same general pattern in other governments. Most governments seemed to be in agreement with the basic philosophy of the code, but each had certain exceptions it wanted to make.

"The United Kingdom experts found that the Commonwealth Tariff Preference was immovable, especially after it became known that the United States could not promise massive tariff reductions in return. Consequently, objectives were scaled down to a freeze against further discriminations, and the possibility of gradual elimination through negotiation.

"During this time the IMF Agreement became an official fact. It certified that there would be a period of balance-of-payments crisis after the war, and it authorized governments to use currency restrictions to deal with it. Since the currency restrictions permitted by IMF Article XIV could be used to restrict trade in pretty much the same manner as direct trade restrictions, there was obviously a need to align the rules on quantitative trade restrictions with IMF Article XIV. The spirit of Article XIV promised a demand for little or no regulation.

The Drafting of the ITO Charter

"The actual drafting of the ITO Charter began with a 'Suggested Charter' submitted by the United States. The section on trade policy, called the Commercial Policy Chapter, still bore a strong resemblance to the design of the 1943 seminar. It was a long and detailed code of 26 articles covering almost every known form of trade restriction. Most articles began with a flat prohibition against the trade restriction in question, making necessary concessions by means of specific

exceptions. As a consequence, practices not expressly excepted were subject to the general prohibition.

"Notwithstanding its generally rigorous format, the Suggested Charter clearly reflected the interests of the author government. The firmest rules were those on which the United States had no practice to the contrary. Thus, for example, the 'National Treatment' rule – the requirement that internal taxes and other internal laws not discriminate against foreign products once they enter local commerce – was absolute. Similarly, the exception authorizing the use of quantitative restrictions to deal with balance-of-payments problems was far more rigorous than IMF Article XIV. On the other hand, the Suggested Charter provisions dealing with U.S. trade practices – export subsidies, quantitative restrictions to protect agricultural price supports, and the 'escape clause' – were considerably more relaxed." (*The GATT Legal System and World Trade Diplomacy*, New York: Praeger Publishers, 1975, pp. 9-18.)

The U. S. Congress Opposes the ITO

Once the Charter of the ITO appeared on Capitol Hill, opponents argued that it transferred too much sovereignty to an international body. Even some of the "New Dealers" were surprised as to the language and scope of the ITO. Needless to say, it was never ratified by the United States.

The proponents of global governance were determined to achieve their long-sought goal of a global community and successfully salvaged part of the ITO plan. The part which survived was entitled, "The General Agreement on Tariffs and Trade." Robert E. Hudec outlined the negotiations which led to GATT as follows:

"The ITO Charter was never ratified. The only part of the grand design which survived was the General Agreement on Tariffs and Trade, a temporary trade agreement containing most of the ITO's trade policy rules and a preliminary version of the nullification and impairment clause....

"The final chapter of the GATT/ITO negotiations occurred two years after the GATT began operations. The ITO Charter failed to win U.S. ratification, and with that it died. The story of its failure, brief and unspectacular, presents the final component of the political background against which GATT began operations.

"Most governments deferred their own ratification procedures until U.S. participation was certain. U.S. negotiators had originally intended to press for Congressional approval immediately after the Havana Conference, early in 1948. For a number of reasons, submission of the Charter was delayed until April 1949. By this time opposition had mounted to substantial proportions.

Support of the Grand Enterprise Withers

"The opposition of traditionally protectionist interests had been expected. What hurt the Charter more was the lack of support from the other side. Liberal trade interests found the Charter's prohibitions too weak. Some felt that the ITO was worse than nothing, arguing that the many ITO exceptions gave legitimacy to the very practices they hoped to prohibit. Underneath the specific criticism, there seems to have been a loss of faith in the postwar plan itself. Support for a grand enterprise like the Charter had little of the enthusiasm it might have had a few years earlier. Gardner sums it up in the following paragraph:

"There had been, to begin with, a general disenchantment with the Administration's major war-time assumptions. The American people were now somewhat disillusioned with the Bretton Woods institutions and even with the United Nations itself. It was no longer possible to count on a large body of support for international organization per se. To make matters worse, the world was now divided into two hostile coalitions – for reasons that had little to do with the conduct of international trade. Thus it was increasingly difficult to link the achievement of multilateralism with the achievement of world peace. Finally, the unhappy experience of the British crisis [that is, the British failure to restore convertibility as promised in the Anglo-American Loan Agreement of 1945] had undermined the idea that the elaboration and enforcement of formal principles would always promote the orderly settlement of national differences.'

The President Withdraws the ITO from Further Negotiations

"The final defeat of the Charter must have been painfully unspectacular to the men who labored through London, Geneva, and Havana – 'a second-class funeral' according to one of Diebold's sources. The Charter lay at rest throughout the 1949 Session of Congress. Hearings were held in 1950, but the House Committee on Foreign Affairs did not report the matter to the floor. In December of 1950 the State Department issued a press release which reported the President's decision to withdraw the ITO from further consideration. The obituary was a subordinate clause in one sentence:

"...the interested agencies have recommended, and the President has agreed, that, while the proposed Charter for an International Trade Organization should not be resubmitted to the Congress, Congress be asked to consider legislation which will make American participation in the General Agreement more effective....'

"Needless to say, the failure of the Charter had a substantial impact on the way GATT officials looked at their own institution. The forces which had defeated the ITO were certainly capable of bringing down GATT as well. There were certain saving differences, however. Much of the criticism of the ITO had focused on its provisions in areas other than trade policy, and all criticisms had probably been sharpened somewhat by the apparent permanence of the ITO. GATT was narrower,

more tentative, and made fewer of the wrong concessions. Some critics of the ITO had actually supported GATT as a preferable alternative.

"Moreover, despite all the opposition to international commitments in this area, there was a need for an international effort of some sort. Governments were interested in tariff negotiations, and they were concerned about each other's postwar trade controls. If GATT could provide useful services in helping to meet these concerns, it might yet win a place for itself – provided, of course, that it did not look too much like the old ITO.

The Principle Lesson of the ITO Debate Was to Maintain Low Visibility

"The principal lesson of the ITO experience, therefore, was to counsel caution and low visibility. New adventures would have to be shelved for a while. There could be no more talk of replacing 'provisional' application of the Agreement with something more 'definitive.' GATT would have to get by as it was. Whatever growth and development there was would have to be quiet, and outwardly consistent with the uneasy status of a pseudo-trade agreement." (Hudec, pp. 44-55.)

Part XII – Strengthening the GATT Machinery

The Reciprocal Trade Agreements Act of 1934 was the beginning of a global movement for the reduction of nation-state tariffs and trade barriers. The United States was the leader of the new international system and moved ahead quickly to begin establishing international decision-making in all areas. Although the United States Senate refused to accept the ITO, GATT has been able to carry the thrust of the ITO program on its back. Since 1947, GATT has played the dominant role along with finance ministers and treasury and state officials in the progressive liberalization of world trade. The United States had truly opened its doors to free trade.

In 1964, due to the increasing complexity of the world economy, it was necessary to launch new trade negotiations to further the plans of the ITO. The negotiations began in Germany in May of 1964, and were called the Kennedy Round. Major features of the agreement reached in 1967 included tariff cuts, averaging 35 percent for all participating nations; tariff concessions on agricultural products; reduced barriers to exports and procedures against dumping. Earlier the United States had passed the Trade Expansion Act of 1962, which authorized tariff cuts of 50 percent and in some instances reductions of 100 percent. The 1974 Trade Act authorized the President to further negotiate tariff reductions and to improve various aspects of GATT.

Part XIII – The Tokyo Round Negotiations and the Planning Mode

After four years of negotiations which involved ninety-nine countries, the Tokyo Round of the Multilateral Trade Negotiations came to a conclusion in 1979. One of the major agreements to arise from the negotiations was a commitment to cut world tariffs an average of 33 percent on over 5,700 items. The reduction in tariff rates were to be accomplished over an eight year period. The Geneva talks also adopted six new rules, or codes, which were carefully designed to curb the use of non-tariff barriers such as government subsidies. Other non-tariff barriers include product standards, complex licensing procedures and arbitrary valuation methods utilized by custom officials.

The Tokyo Round negotiations were the seventh set of trade talks since 1947 when GATT was formed. Since 1947, tariffs have been consistently lowered to the point where there is little or no protection for many industries. Tariffs in 1979 averaged 8.3 percent. In Japan it was 10.9 percent, 15.5 percent in Canada, and 9.8 percent in the European Economic Community. In 1988, as a result of the Tokyo Round talks, tariffs will be lowered to 4.3 percent in the United States.

According to a Congressional Budget Office report issued in March of 1979, the new tariff reductions would injure the textile, leather products, steel, jewelry, radio and television set industries. Major unemployment would result from the trade liberalization policies of the GATT.

Congress Ignores Constitutional Role to Regulate Commerce

The United States Congress ratified the new codes. What is interesting is that they were not empowered to amend or alter the codes. It is truly ironic in light of the fact that it is the constitutional prerogative of the Congress to regulate commerce among foreign nations.

It is important to keep in mind that the goal of the elite planners is the construction of a global society based upon monopoly capitalism, finance capitalism and corporate socialism, etc. Free trade is a socialist game because there is no 'free' trade involved. It is, as noted before, centrally regulated or managed trade at the international level – Geneva. You will recall that one of the main tenets of socialism is central economic planning at the national or federal level. Once that was achieved in the 1930s in the United States, the postwar planners in the executive branch of government set about to centralize economic planning at the international level. This is not an isolated case either. Centralization and control of every aspect of one's life, etc., is being slowly transferred to international bodies. At the present, these bodies appear to be functioning separately, however, nothing could be further from the truth. A study of the existing international bodies demonstrate that international planning and control – political, economic and social – is being vigorously pursued. International decision-making for the world by a few elite planners is the goal. So far they have been successful, although it has

taken them decades of hard work to achieve their ambitious goals of constructing a global society.

Economic Interdependence Requires Political Coordination and Transfer of Sovereign Powers

Economic and political sovereignty is daily being passed to international bodies who answer to no constituency but themselves. An example of the planning type attitude so prevalent in today's world is found in a recent article by Harold B. Malmgren, writing in 1977, he said:

"...Among governments there has recently been a spreading acknowledgement that economic interdependence requires international political effort to coordinate, within limits, certain national economic policies. One sign of this recognition has been the series of economic summit meetings of the leaders of the major trading powers that have been held over the last two years.

"Even so, the most recent of these summit meetings, held in London last May, revealed that the degree of political commitment to cooperate is still limited by national preoccupations....

"By mid-1977 very little internationally coordinated action has been taken. What can be seen instead is an array of conflicting, or mutually inconsistent, policies, and a political inability on the part of the governments to pull together at international level....

"The present array of economic policies can accordingly be characterized as ambiguous and inconsistent. This reflects a high degree of national schizophrenia. On the other hand, there is the recognition that no nation can plan its economic policies without considering the policies of other governments, as well as the outlook for other economies.... On the other hand, governments know they are held politically responsible for continuing economic difficulties and, therefore, are under heavy domestic pressure to rectify problems through 'visible' measures...." (*The Atlantic Community Quarterly*, Washington, D. C.: Atlantic Council, Winter, 1977-78, Vol. 15, No. 4, pp. 422-424.)

Malmgren's real concern is that the world and the individual nations are not relinquishing economic and political sovereignty to such international bodies as the OECD, IMF, IBRD and GATT. He noted that "trade protectionism can flourish in the present environment." (*Atlantic Community Quarterly*, p. 424.)

Moving from Economic Nationalism to Interdependence

It is important to remember that the elite planners of the Western world have a clear set of objectives as it relates to the development of the "new Imperial

System." Pierre Lortie outlined the goals of the postwar elite planners of the United States, as follows:

"During the interwar years economic nationalism was widespread and one of the causes of the general economic collapse of the 1930s and ultimately of World War II. The planners of the postwar international economic structure, under the leadership of the United States, were determined to move away from economic nationalism toward international cooperation and interdependence. To achieve these goals intergovernmental organizations were created with the authority to adopt rules of international behavior and to impose those rules on members states.

"These organizations were the International Trade Organization (ITO), the International Monetary Fund (IMF), and numerous others established for specific purposes, including the International Bank for Reconstruction and Development (IBRD, or World Bank), the Food and Agricultural Organization (FAO), and the International Labor Organization (ILO). The ITO was to be the international institution for trade relations. Because the U.S. Senate failed to ratify the Havana Charter, the ITO was never born. As an interim measure, a General Agreement on Tariff and Trade (GATT) was hurriedly negotiated and concluded in November 1947. This General Agreement embodied most of the principles that were to be the foundations of ITO. It is this 'interim measure' that provides again today the facilities for multilateral trade agreements and for the reduction of reciprocal tariffs among member countries. It is, thus, at the same time a multilateral agreement and an institution." (Pierre Lortie, *Economic Integration and the Law of GATT*, New York: Praeger Publishers, 1975, p. viii.)

Part XIV – The Proposal for a New Production and Trade Organization

The completion of the Tokyo Round talks signaled the next phase in the development of the GATT. The elite planners in New York, Washington, Paris, London, etc., felt that the time was right to launch a new effort to build the International Trade Organization. A new organization would set the final stage for complete control of national trade, commerce and economic policy at the international level.

The Case for a New Global Trade Organization

In the latter part of the 1970s, the Council on Foreign Relations began its 1980s Project. One of the studies resulted in a book entitled *Collective Management: The Reform of Global Economic Organizations* by Miriam Camps and Catherine Given. In 1980 one of the chapters of the book was published. It was entitled, "The Case for a New Global Trade Organization." The paper was distributed to the major leaders throughout the Western world. In the introduction to the paper, Miriam Camps notes:

"With the conclusion of the Tokyo Round of Multilateral Trade negotiations (MTN), the thoughts of officials must soon turn to the steps that should be taken to deal with problems that were left unresolved or untouched by those negotiations. The first order of business is to breathe life into the new codes negotiated during the MTN. But this paper looks a little further into the future and argues that the improvements agreed upon during the Tokyo Round may not be adequate to deal with some of the issues that are likely to be most important, in particular, the need for a more nearly universal rule-making system and better ways to deal with problems of structural adjustment. In this context, the paper argues that the time has come to think seriously about completing the original Bretton Woods 'tripod' with a new trade and production organization which would build on the progress that has been made in the GATT and by the UNCTAD but which would formally supersede both organizations.

Three Global Institutions Should Be Reformed and Strengthened

"It is the theme of the larger book from which this paper is drawn that, given the diffusion of economic power and the changing nature of international economic relationships, certain key institutions should be reformed and strengthened to bear more of the weight of the rule-making and the 'management' which will increasingly be needed at the global level. The critical 'three' are the International Monetary Fund, the World Bank Group, and the yet-to-be-formed new trade organizations. In strengthening this 'tripod,' and particularly in fashioning the still missing 'third leg,' it is important to find new ways to combine widely applicable general rules and procedures with, on the one hand, arrangements enabling the industrialized, market-economy countries to accept more stringent rules among themselves, and, on the other, special arrangements for countries that are less developed or have different economic systems. It will also be important to find ways to encourage national governments to give more weight to longer-term, systemic concerns in the formulation of national policies if the emerging global economy is to function efficiently, fairly and in an orderly way.

"Suggestions that the time has come to think seriously about a new ITO have recently come from several quarters. One of the first came from the American Society for International Law, which in 1976 published a proposal for a new World Trade Organization. Most recently (and after the present study was completed) the Brandt Commission endorsed the long-term goal of merging the GATT and the UNCTAD. Similar suggestions have been made by a number of experts. There is nothing unique about the view that the Bretton woods system now needs 'completing' as well as 'modernizing' to reflect the fact that the universe of states is a far different one and the nature of economic interrelationships a more complicated one than existed when the rules of the system were laid down at the end of World War II. But this paper goes rather further than others have yet done in suggesting the basic rules and procedures of a new organization. (*The Case for*

a New global Trade Organization", New York: Council on Foreign Relations, Inc., 1980, pp. iii-iv.)

A Modern Version of the ITO

The new organization which Miriam Camps is suggesting is called a Production and Trade Organization. According to Camps the PTO is "quite unashamedly, a 'modern' version of the ITO." (Camps, p. 55.) Camps notes in her monograph that "GATT was assumed to be a temporary arrangement which would soon be superseded by the more far-reaching Charter for an International Trade Organization administered by a new specialized agency, the ITO (International Trade Organization).

The first section of Camps' essay is entitled, "Unresolved Issues and New Problems." In this part the author builds a case for remolding GATT completely by construction of a new international organization, the PTO. GATT's ineffectiveness in recent years has brought the global planners a great deal of frustration. Camps' notes:

"It was the widespread recognition that the authority of the GATT had eroded and that countries everywhere were turning to new forms of protection as they faced the new problems of the 'seventies that lay behind the decision in 1973 to undertake the Tokyo Round. And it was fear of the consequences of a breakdown and the prospect of a return to the trade wars and economic anarchy of the 'thirties that led the key countries to make enough concessions to one another so that the negotiations could finally be brought to a reasonably successful conclusion six years later.

Moving Toward Distribution of International Production

"In the 'fifties and early 'sixties the GATT had been a remarkably successful and very cost-effective international organization. But by the end of the 'sixties its decline was well underway. GATT rules increasingly tended to be applied only in the easy cases. When an industry was in serious trouble, the remedy was sought outside that framework. No international judgment was brought to bear and no international appraisal was made of the actions taken to safeguard an industry to see whether they bore disproportionately on outsiders, or whether they accorded with the larger purpose of moving toward a distribution of international production that responded either to comparative advantage (efficiency) or to what might be called global welfare requirements (equity). Too often only national interests were considered, and frequently these interests were calculated to narrowly and in too short a time perspective.

"Sometimes the remedies employed should have come within the purview of the GATT, but countries were unwilling to have their actions subjected to the tests and conditions of the Agreement. At other times the remedies took the form of

subsidies, tax concessions, privileged forms of government procurement, and other similar devices for which no adequate rules or codes of conduct existed. (Camps, pp. 10-11.)

The Elimination of Free Market Economics

In the above quote Camps tells the reader that one of the main goals of the global planners in establishing the GATT was to be an instrument for "moving toward a distribution of international production." It is apparent that the socialist doctrine being advanced by Camps and the GATT is based upon the transfer of people and industrial or manufacturing plants from various areas. There is no allowance for consumer preference and choice, which is the basis of free market economics. Socialist ideology, as noted previously, calls for central economic planning, first at the national level and second at the global level. GATT, is based upon this doctrine. It is gradually seeking control over all trade in the world. The new Production and Trade Organization advanced by Camps, the Council on Foreign Relations, and others is pure and simple central economic planning (socialism) in the full fruition at the international level. Camps and her associates throughout the Western world are desirous to plan all production and trade according to rules and procedures developed by the elite planners in global institutions such as GATT. Under GATT, or a new PTO, free market economics would be extinguished from the earth and the people would not be free to buy or sell as before. All trade would be "managed trade."

Central Decision Making at Geneva

According to the GATT approach, the central issue is to "identify and encourage the shifts in production patterns that need to take place in the next decade...." (Camps, pp. 16-17.) In other words, the consumer is not to make the decision of what is produced and bought (through purchases) but, the officials at Geneva will determine what is to be produced, how much will be consumed, etc.

Miriam Camps argues that: "it is not simply trade rules but the whole range of policies affecting the international location of production that should be brought under more adequate global oversight, rules and policies...." (Camps, p. 18.)

Global Rules Governing Business Practices

"Off and on for many years there have been suggestions that there should be a "GATT for Investment": that is, a code or codes governing the conditions that might be attached to foreign investment and rule-system designed, like the commercial policy provisions of the GATT, to reduce frictions among the states and to make investment, like trade, more 'efficient' and more responsive to market forces by removing barriers and proscribing practices that introduce distortions or discriminations in investment flows. Since direct foreign investment is, almost by definition, done mainly by multinational enterprises, the discussion over the kinds

of rules that might be desirable to control government actions in this field has frequently become entangled with the discussion of rules that should govern the operation of multinationals, and then, by a natural extension, with rules governing business practices generally.

"There are three broad classes of problem which would seem to call for more rule-making, or at least for broader understandings among governments than exist today. First, there is a range of problems arising from overlapping or concurrent jurisdictions. Not infrequently a subsidiary company, although subject to the laws of the host government, is not totally free from legal restraints imposed (either directly or through the parent company) by the home of government of the parent. For example, the U.S. government to the annoyance of foreign governments, has claimed the right to extend to foreign subsidiaries of American parents U.S. anti-trust legislation and controls on exports of goods restricted on security grounds. Second – and the issue that today attracts the most concern, at least on the part of the American analysts – there are problems arising from the lack of any widely accepted rules about the inducements and the restraints that it is legitimate for home and for host governments to offer or to impose on foreign investment. Finally, there is a wide array of problems having to do with the practices of enterprises: Multinationals can frustrate national plans and escape from various kinds of governmental control by the way they keep their books, exchange goods among their subsidiaries, shift production, and make their investments. And all enterprises, multinational or not, which possess a significant degree of market power may operate in ways that distort markets, undermine national policies, or undercut international agreements on trade and investment. The lack of much in the way of agreement on the standards that should apply to state-trading enterprises is logically a part of this third array of problems." (Camps, p. 20-21.)

What Camps is hinting at is control over "direct foreign investment" should be under international regulation. The PTO which she is suggesting has provisions for regulating such behavior.

The Role of the OECD in Paris

In the first part of her discourse on the need for a new global trade organization, Camps outlined the functions of a sister international institution, the Organization for Economic Cooperation (OECD) in Paris. She said:

"...The OECD...is essentially composed of countries which have a uniquely high level of economic interdependence requiring collective management and which also share certain common political and security concerns....

"The OECD...perform[s] the useful function of promoting the closer harmonization of policies among a few highly interdependent countries...." (Camps, p. 28.)

Many people are unaware that today the United States is already under "collective management" by such international bodies as the OECD, etc.

A Bold Step to Create the PTO

Camps next outlines the elite attitude displayed by the global planners of the Western world, especially as they propose the plans which they hope to implement – mainly the combining of GATT and UNCTAD into one organization – the PTO.

"Apart from the difficulties that stand in the way of any one of the three organizations that now share the field (or the three in combination) evolving to meet the needs, the bolder step of forming a new organization to supersede the GATT and UNCTAD (and progressively to assume some functions that might otherwise, *faute de mieux*, fall to the OECD) promises a number of positive advantages. As discussed below, it is easier to see ways of reconciling the need to have as many states as possible accept some rights and duties with, on the one hand, special arrangements for developing countries and, on the other, with freedom for sets of states to go further than the membership as a whole would be prepared to go in accepting obligations *vis-à-vis* one another. Closely related to this point, it is also rather easier to see how one might break out of the pattern that today hampers and limits the effective operation of all international institutions (namely, the desire of all states to participate in all committees, councils, etc.) and move to a new pattern which would combine more use of limited groups with arrangements that effectively protect the rights of those not represented. And it is certainly easier to see how various functional problems that need to be looked at more closely together can be addressed in that way. Centering the responsibility for an important cluster of activities within one institution and then establishing clearer lines of authority and closer working relationships between it and the Bank and the Fund would also open the way to a less cumbersome and a more fruitful coordination within the U.N. system generally.

"Finally, if handled in the right way, the agreement to establish what would, in fact, be a 'new ITO' would go a very long way toward meeting the argument of the LDCs that the modern world needs a new international economic order. (Camps, pp. 28-29.)

Elimination of Representative Government

In a constitutional government, the people are the sovereign rulers and those who serve in government positions are representatives and employees of the people. In the Camps proposal, there is no room for the voice of the people. Camps feels that one thing which greatly hampers international institutions is "the desire of all states to participate." It should be obvious to all supporters of international cooperation that what Camps and others are promoting is nothing more or less than a system where the elite control the world economy.

According to Camps, they are engaged in a "war" with free market economics and its proponents. She says:

"...Most of the contractual commitments now enshrined in the GATT must be preserved if the very substantial progress made since the war in freeing trade and in eliminating unfair and unscrupulous trade practices is not to be lost." (Camps, p. 29.)

It is interesting to note that Camps feels that protecting one's industrial base and free market economy is "unfair and unscrupulous trade practices."

Global Rules for Foreign Investment and Business Practices

Part III of Camps essay is entitled, "Elements of a New Production and Trade Organization." In this section the author outlines the basic components of the new PTO which the Council on Foreign Relations was suggesting and promoting. She stated that:

"The PTO would be a new specialized agency paralleling the World Bank family and the IMF and with a similar formal relationship to the United Nations. It would have a very close working relationship with a somewhat restructured IBRD-IDA-IFC complex and with the Fund. It would supersede both GATT and UNCTAD although it would take over some functions from both organizations, and most of the contractual obligations entered into by governments within the framework of the GATT would remain in force.

"This new specialized agency would deal with trade and industrial policy questions, defined broadly, and specifically including problems of structural change and questions having to do with the global distribution of production. Its mandate should also extend to certain service industries. It would have rule-making, surveillance and consultative functions with respect to direct foreign investment and business practices. Commodity arrangements affecting conditions of trade, except for arrangements dealing with energy (both conventional and nuclear), would also come within its purview, as, of course, would trade-related aspects of agriculture.

A Bold New Global Agency

"The new specialized agency would be rather different from any of the existing specialized agencies in that the weight of the institution would initially at least (and probably for many years) be in an array of formally subordinate boards, groups, or committees whose memberships would vary according to the task and which would operate with considerable autonomy. Some of these subordinate bodies would be concerned with the operation of precise and legally-binding codes; others would be looser and less concerned with rule-making and enforcement and more concerned with promoting consultation and cooperation. Membership in the

overall organization, or umbrella organization, would be open to any state prepared to accept a few basic principles....

Centralized Control at the Top of the PTO

"The umbrella organization would be global and open-ended; that is, any country which accepted the general principles would be able to join at any time. The plenary body of the organization should normally act by consensus. Formally it might act, at first, on a one-nation, one-vote basis; but if, over time, more substantive powers were transferred upward to the umbrella organization, the plenary body would adopt weighted voting, as in the Bank and the Fund. Initially, at least, the plenary body of the overall organization might meet biennially. Its main function would be to discuss trends and objectives within the substantive areas coming within the purview of the PTO. These discussions would be similar to the discussions at the annual meetings of the Bank and Fund, although on a different, but complementary, range of subjects.

Subsidiary Boards Would Be Subject to Rule of Advanced Nations

"The subsidiary boards, groups, and committees would *not* be subject to the direction of the overall body, since their powers would derive directly from the obligations undertaken by the countries concerned in establishing these semi-autonomous boards, committees, and groups. However, all these subsidiary bodies would operate 'transparently'; that is, although non-members of the group, board, or committee could not normally participate in these bodies, the Executive Director of the new agency would participate *ex officio* in all subsidiary bodies and would be responsible for keeping the membership of the overall organization informed on a regular basis of actions taken in all sub-groups. And, as explained further below ..., there would be certain rights of complaint if a country suffered from action taken by a sub-group of which it was not a member.

Governing Principles of the New PTO

"One of the reasons for now thinking about a new trade organization is the desirability of having at least a few trading rules that apply universally (or nearly universally) and of laying the basis for a process of further codification in which all countries feel they have a stake. At present, the trade of neither the command-economy countries nor the LDC's is effectively covered by the rules of the GATT. And it is clear that much the same reasons that have led some of those countries to refrain from joining the GATT, and prompted most of them to seek special arrangements which effectively removed their trade from the major constraints of the GATT, would render fruitless any attempt to make membership in the new organization conditional on the acceptance of any very elaborate code or set of obligations. But it is, perhaps, not wholly fanciful to think that agreement might be reached on something like the following set of principles as the qualifying commitments for membership in the umbrella organization:

"1. Acceptance of the general principle that national actions in the fields covered by the organization may have damaging external consequences and that another member state which considers itself adversely affected has a right to have the situation reviewed according to agreed procedures.

"2. Acceptance of the principle that like situations should receive like treatment.

"3. Acceptance of the principle that what entitles a member to the benefits of the rulers and the procedural arrangements in the subsidiary groups is its acceptance of those rules and procedural arrangements.

"Each of these general principles contains rather more than may at first be apparent, and each raises a number of questions and problems that are worth discussion. The first principle is the most self-explanatory. And it is, perhaps, the easiest to dismiss as impracticable on the grounds that it would open the door to an endless stream of complaints, or that it is so broad as to be meaningless; or that it would constitute widespread interference in domestic affairs which would be solidly opposed by the East European countries, by most of the LDCs and, doubtless, although probably in a more sophisticated fashion, by many of the advanced industrial countries as well. But before writing off some such general principle as meaningless, dangerous, or non-negotiable, it is worth looking at some of the arguments that might be made on the other side.

The Distinction Between Foreign and Domestic Policy Has Nearly Vanished

"It is now a commonplace that traditional distinctions between foreign and domestic policy have lost much of their meaning. If one is really trying to think through the kind of trade and production organization that would make sense in the future, there is much to be said for having this erosion of any hard and fast dividing line explicitly recognized. In the second place, one of the central problems with all organizations and one that has become steadily more acute is the desire of too many countries to see membership, frequently because they see no other way of having their interests protected. The way we are here seeking to resolve this familiar efficiency/participation dilemma is by combining universality (or near universality) in the overall organization with much more limited membership in the more operational or code-making and code-enforcing subsidiary groups. Making these groups subordinate in a substantive sense to the overall organization would simply stultify them. Providing some means whereby non-participating countries can complain if they are injured need not do so, but rather might well pave the way for more acceptance of limited member sub-groups than would otherwise be probable. Clearly, the acceptability of the principle would depend, in large measure, on what would happen if a country claimed injury. The handling of this type of complaint is discussed below ..., together with complaints arising from other commitments...." (Ibid).

A Detailed Plan for Control of the World Economy

The sketch by Miriam Camps of a new Production and Trade Organization is a carefully crafted plan for complete control of the world economy and the individual nation-states. The administration of the PTO is also startling in that the proposal states that "the subsidiary boards, groups and committees would not be subject to the direction of the overall body." Who would they be responsible to? Who selects them? Why are not they subject to the nations which are to create such an institution? The elite planners of the PTO will be subject to the same groups as the IMF, IBRD, BIS, etc. These special groups are the unofficial political, economic and financial power structure of the world – the international bankers, investment bankers and corporate directors. These influential groups constitutes the most powerful men on earth. By virtue of their control of the banking and corporate structures they dominate international institutions and nation-state governments throughout the world.

Internationalists Plan to Bring the Communist Countries into the PTO

Miriam Camps admitted that the long-range goal is to bring the communist countries into the system when she made these specific statements:

"...Acceptance of the third principle is important if, as is our purpose here, one is seeking a system which will gradually bring larger and larger areas of interstate conduct under international surveillance...." (Camps, p. 34.)

"...Perhaps the command-economy countries should also be eligible for associate membership in the Tariff and Trade Code...." (Camps, p. 38.)

"...Membership in the overall organization and in many of the other organizations coming within its orbit would be open to the command-economy countries...." (Camps, p. 38.)

A Plan to Control All World Trade

Already four-fifths of world trade is controlled or regulated by GATT. The Camps proposal was designed to control all world trade and production (all economics in the nations of the earth) and this was to be accomplished through the "rule-making" and "rule-enforcing" consultative groups which were to constitute the governing apparatus of the PTO. The most important "organ within the PTO" was to be the Trade Policy Review Board. According to Camps, "the members of the Trade Policy Review Board would be paid by governments," and "the welfare of the system as a whole should be a central part of their charge." (Camps, p. 42.) The stage is clearly set for government by the elite and it is the taxpayers of the individual nations who will pay the salaries of the board members and the "international staff." It should be pointed out, however, that the individual citizen was not to have the opportunity to either voice his opinion on PTO policies or vote

in the selection of the international board and staff. Civil law is to prevail throughout the international trade system as it does throughout the international economic and monetary system. This was illustrated by Camps when she said that the "panels" who would serve the Review Board would consist of experts selected by the PTO. She said: "...Members of panels should be experts, not instructed representatives of governments...." (Camps, p. 44.)

It is apparent that government representatives are undesirables. The PTO was desirous to have only those who possess the socialist worldview working at the PTO as experts.

Shifting Manufacturing Plants to Lower Developing Countries

The Advisory Council on the structure of the Global Economy is an interesting invention. This organ of the PTO was designed to shift people around various parts of the world and to alter their basic behavior patterns toward socialism. Camps outlined that the Advisory Council was "to encourage the shift of some manufacturing to those areas of the world that face impossibly high levels of unemployment." (Camps, p. 45.) It was also "to encourage shifts out of one line of production into another, not infrequently, it also involves encouraging shifts in patterns of behavior and in expectations." (Camps, p. 45.)

Rather remarkably Camps admits: "...The task of deciding which situation falls into which category is by no means easy. The further task of identifying the new growth areas into which declining industries should be encouraged to shift resources is even more formidable. And the process of encouraging behavioral change is the most difficult of all...." (Camps, p. 45.)

Arguing for a Socialist Economy on a Global Basis

In the next paragraphs Camps argues for a socialist economy where the market operates under government planning. Camps states that the "advantages of blending the two processes (markets and planning) so that they reinforce one another are obvious enough." (Camps, p. 46.) Camps voices the following opinion: "...No government has yet found the ideal mix; but all accept the need for giving some kinds of guidance to the market if desired social ends are to be attained...." (Camps, p. 46.)

Nation-States Become Administrative Units

Control over the "planning" of national economics was to be taken over by the Advisory Council. Camps notes: "Sometimes subsidies or guarantees will be required to encourage investment; or trade policies may have to be adjusted; or manpower policies may have to be changed. To further this process of identifying areas where structural change is required and of suggesting how change might best

be encouraged, something like the proposed Advisory Council on the structure of the Global Economy is needed...." (Camps, p. 46.)

Elite Planners Believe the Nation-State is Outdated

Camps' proposal continually suggests that the nation-states relinquish their economic and political sovereignty to international bodies. Camps admits that the old assumption was that the "nation-state is the central unit of analysis," however, in the era of the evolving trilateral superstate "the focus now shifts to the global economy as the unit of analysis." (Camps, p. 46.) The Advisory Council was to be charged with the responsibility to develop a "global industrial policy" utilizing socialist ideology.

Additional Powers for Staff Members

Camps continues to advocate one socialist proposal after another, however, she is quite adept at couching her proposal in intellectual terms such as "command economy". The Advisory Council was to be a "standing body" with "limited members." Its research staff was to be a "self-contained unit with far more independence than is customary for the staff of an international agency." (Camps, p. 47.) The research group was to have the "freedom to interact with private and governmental research staffs and with business and labor groups throughout the world, and the right to publish its findings without prior approval by governments." (Camps, p. 47.)

In the section on the Commodities Board, Camps pointed out the "central purpose of the PTO...is to bring a higher proportion of world trade within a common rule system." (Camps, p. 52.) Although four-fifths of world trade is already dominated by GATT the goal is complete control of all international trade.

A Powerful New International Organization

It is obvious that a new PTO which would take over existing functions performed by GATT and UNCTAD. This was in the advanced planning stages when Camp wrote her monograph. The goal is not hidden, but is quite plain – the construction of a new international organization which would control, dominate and engineer the world trading system. It was an undertaking of massive proportions. Billions of people make decisions each day in the market economy of the United States and throughout the world. If the PTO was enacted, a few hundred or a few thousand people would make decisions on what is to be produced, how much, by whom, etc., for the entire world. Planning would replace the consumer.

Subjecting National Commercial Policies to International Surveillance

Miriam Camps concluded the part of her essay on the PTO with these words:

"It is very important to build on the substantial progress that has been made during the last three decades in freeing trade and subjecting national commercial policies to international surveillance and to a system of rules. Efforts at reform can all too easily be pretexts for backsliding. But, one way or another, steps need to be taken in the decade ahead to move beyond the essentially 'first world' system of trade regulation that we have today to a more comprehensive yet, at the same time, sensibly differentiated system. The traditional processes of rule-making need to be expanded, both to cover more practices and to incorporate more countries. But it will also be necessary to bring under more multilateral surveillance and influence those aspects of national industrial policies which most strongly affect global patterns of trade and production. Here substantive rules are difficult to draft, and, in any case, that will frequently not be the right way to find the answers to many of the problems that are likely to arise. Structural changes within countries and the growth of the world economy are far too closely interrelated to say that the international community has no interest in these matters except in so far as they give rise to the kind of trade disputes with which we have some experience and for which we have some tested rules.

"There are many variations on the ideas on institutional reform that have been sketched out. For example, although we see conceptual and practical advantages for keeping the major Tariff and Trade code limited to those rules which the advanced industrial countries can accept without much qualification and without cumbersome safeguarding arrangements and for deliberately shifting the weight of trade policy discussions to a high-level restricted Board representative of all members of the PTO, there is a case for making a less radical shift: for keeping rather more of a rule-making function in a 'GATT-minus' group and not seeking, at this stage at least, to make the Trade Policy Review Board as central an organ as we envision.

A Bold New Approach at the Global Level

"We prefer the bolder approach which makes a more radical break with the past, partly because we think the LDCs would be likely to be more prepared to participate constructively in an institution that would be such a clear and positive response to some of the more well-founded demands in the NIEO. Some people will argue that the LDCs are not yet ready for compromises which involve any acceptance of new responsibilities on their part, and that, for a couple of decades, confusion in trade policy at the global level (with perhaps rather more order among the industrial countries maintained within the framework of the OECD) must elapse before the LDCs are ready for a trade and production organization that would compare in strength and in importance with the IMF in the monetary area. This seems to us unduly pessimistic; if it becomes the excuse for inaction, it may well become a self-fulfilling prophecy.

The PTO Is a Modern Version of the ITO

"Other people will argue that the experience with the ITO should be taken to heart, that one of the reasons why it failed to secure Senate approval was because it tried to do too much. There was something in it for everyone to be against. The PTO is, quite unashamedly, a 'modern' version of the ITO. But times have changed, and much of what we are now suggesting be brought together under one umbrella is already being looked at somewhere in the system, although not usually very adequately. Moreover, today it is far more evident to far more people than it was thirty-five years ago that not only are economies interdependent but the issues, too, are interdependent. Action in any one area, if it is to bring the intended result, frequently requires action in a closely related area. We are not proposing the creation of a vast new international organization to add to an already over-rich array but, rather, the replacement of two not very satisfactory global-level organizations with one which might both be more efficient and command wider support. But it cannot be said too often that no institutional arrangements will be of much use unless governments are prepared to adopt policies to reverse the present slide toward protection and to encourage the process of an orderly adjustment to new patterns of global production. (Camps, pp. 54-55.)

Bringing Socialist and Market Economies Under International Surveillance

The concluding pages of Miriam Camps proposal for a new PTO dealt with East-West trade. In these few pages she proposed a continuation of trade between the economies of East and West. Camps noted: "...It seems reasonably safe to predict that trade and other forms of economic intercourse between the socialist economies and the market economies, developed and developing, will continue to expand. If this is true, it would seem desirable...to seek to bring these trade relationships under rather more international surveillance than in the case today and to provide for more multilateral discussion of problems posed by systemic differences...." (Camps, p. 56.)

Merging All Nations into the Global Trade System

The former Soviet Union and other communist nations were destined to join the new international economic order. It was just a matter of time before they would be equal partners in the world trading system. Camps notes:

"The relationship between the Soviet Union and the central trading system has evolved very differently. At the very start of the ITO negotiations, the United States put forward provisions which were intended to enable the Soviet Union and other state-trading countries to participate. But the Soviet Union took no part in the negotiations, and those sections of the U.S. proposal that had been drafted with the Soviet Union specifically in mind were dropped. All that remained were some provisions on state-trading which were mainly concerned with seeking to ensure that state-run enterprises within states that were generally market-oriented

followed the same rules as did other enterprises and did not operate so that they undermined the commercial policy rules of the proposed Charter. When the first round of tariff negotiations were undertaken and commercial policy provisions similar to those being considered for the Charter adopted as the negotiating framework, the Soviet Union again showed no interest in participating. Nor during the years since this first meeting of the GATT has there been any Soviet interest in joining the GATT or in participating in multilateral negotiations, although obtaining m-f-n treatment from the United States and other countries has been a priority item for some years.

"The Soviet Union is a member of the UNCTAD, which, of course, is an integral part of the central U.N. structure, and from time to time the Soviet Union has shown some interest in the establishment of a new world trade organization. But there has been little indication of just what the Soviet Union envisages as the role of a world trade organization, and one is left with the impression that support for it is simply a part of the general Russian preference for U.N. organizations, where the one-nation, one-vote principle is strongly entrenched. Possibly, too, this may be seen as a way to guard against the development of too much independence on the part of the smaller East European countries, which the Soviets might feel participation in the GATT could tend to encourage. Whatever the motivation, no specific plan has ever been put forward, nor have the Soviets given anything but routine support to various efforts made by the LDCs to turn the UNCTAD into a new ITO." (Camps, p. 57.)

It is important to note that there is presently only two trading systems in the world – the Western world's (GATT) and the communist system, formerly known as COMECON.

Camps tells us that it was planned in 1948 for all nations to become a part of the global trading system devised by postwar planners. In other words, a truly global socialist trading system has been under preparation for nearly five decades.

A Merger Between East and West

Camps is optimistic that a merger between East and West was not too far away. She states: "...Depending on the subject at issue, one can envisage an array of rather different devices for bringing about more participation of the East European countries, including the Soviet Union, in a common system of rules and procedures. The device that has been most used in finding acceptable counterparts to the tariff concessions granted by market economies is various kinds of access commitments; and, as William Diebold suggests, a formula based on access commitments and undertakings about equal treatment might well be used more generally and more multilaterally as one bridge between the two systems...." (Camps. p. 58.)

Redefining the Rules for International Trade

"...[T]wo rather different processes are today in train: One process is concerned with refining rules to make a system based essentially on free market concepts fairer and freer. The other process is concerned with seeing that government interventions of various kinds do not shift the burden of adjustment onto others or do not create new problems in the course of solving old ones. Participation in the first process is even less easy for command economies than for many LDCs; participation in the second presents far fewer problems. In a world in which this second process seems likely to become more important, systemic differences tend to become, if not wholly irrelevant, at least far less important as hindrances to collective action...." (Ibid.)

Global Planning for a Merger of East and West

Camps' conclusion dispels any doubt in the mind of the reader that the elite planners of the Western world are planning a merger of the East and West systems into a "new Imperial System." She stated:

"A somewhat similar picture emerges if one looks at the various types of industrial cooperation arrangements between Western firms and Eastern state-owned enterprises that are increasingly characteristic of East-West relationships. As William Diebold again point out, there, too, provide ways of linking the two quite different systems by bypassing the market. Some of these inter-firm agreements raise questions that are similar in kind to questions that arise from the transnational activities of multinationals generally. And where this is the case there may be value in having at least some of the East European countries participating in any code-related groups that are discussing these issues. Rule-making on a global basis, to the extent it proves to be possible, should ease rather than intensify the difficulties Raymond Vernon foresees if deals of this kind proliferate and there is no coordination among the Western European countries. It is unlikely to go far enough to run into the rather different problem that Diebold has drawn attention to, namely, that premature codification of rules governing inter-firm arrangements might impede the desirable process of increasing differentiation among the countries of Eastern Europe.

"In short, the main thrust of the analysis in William Diebold's 1980s Project study is one that tends if not positively to support at least to be congruent with the changes that we suggest might be made in the existing trade regime. His central argument – that it is feasible and desirable to incorporate the command economies in certain codes, such as those on standards, where there is nothing to be lost and much to be gained by the widest possible adherence to agreed rules, and yet at the same time important that the highly industrialized, highly interdependent market economies be free to go ahead without these countries where they would be at best passengers and at worst trouble makers – is easy to meet under our proposed

system. Moreover if, as seems probable, there is increasing concern with problems arising both from the shifts and the reluctance to see shifts in the patterns of global production, the command-economy countries will, at least in certain sectors, be producers which cannot rationally be left out of the discussion, for their production and their trade with the rest of the world will be too important to be treated as a residual. A recent analysis of today's GATT – looked at from the standpoint of the smaller countries of Eastern Europe – also suggests that our PTO might respond rather well to a number of the difficulties those countries encounter with the present system.

"Whether or not the Soviet Union would decide to join the umbrella organization is impossible to tell. But the likelihood is that it would be under great pressure to do so if the general idea of creating a new institution to supersede both the GATT and the UNCTAD found favor with a majority of the LDCs. Consistent with its views about the importance of keeping to a minimum any international concern with domestic policies, the Soviet Union would doubtless seek to weaken key elements in the new organization which derive essentially from the belief that more rather than less global concern with domestic policies is becoming essential, starting with the first basic principle we have proposed for the new PTO. These principles are too important to be sacrificed to obtain Russian agreement." (Ibid.)

The World Faces Difficult Decisions Ahead

The choice facing the LDCs is whether to participate or not to participate in a socialist world trade system. To not participate means war and oppression, to participate means domination and suppression. Either choice brings disaster for the LDCs and the nations of the world. The decades ahead are important periods in world history, for during this time it will be determined whether freedom will be universally established or whether the world economy will be managed by an elite financial oligarchy from the United States, Europe, Japan and elsewhere.

Part XV – A Critique of the Free Trade Movement

One of the most outspoken critics of free trade in America, as noted before, was George W. Malone, United States Senator from Nevada. In 1958 he wrote a book entitled, *Mainline*, where he outlined what he felt were the critical flaws of the free trade philosophy and its impact on America. He stated: "The tariff policy of a nation – of any nation – has three legitimate functions: The first function is to raise revenue; the second is to protect the economy of its citizens; the third is to ensure the nation's defense.

"These functions have been subordinated to a theory. The theory, broadly speaking, is that the varying political structures of the world, and the varying economies of the world, can be molded into one coordinated whole. In pursuance of this theory, it is clear that a series of international organizations must be set up. As these are set up and begin to function, it is also clear that the purposes of each

must parallel those of all the others. If the theory is to be made to work, there must be an overall directing guidance, and an overall directing plan....

"The reason for this situation has followed upon the application of a theory. It has come about logically, and in the following manner.

"Among nations abroad, sovereign power was traditionally vested in governments, *i.e.*, in the political authority, in the executive, in the state. The states could meet, as sovereign entities, and decide what they might wish. The people concerned did not have to be consulted, for they possessed no sovereignty. The state was all-powerful.

In America the People Are Sovereign

"This was not true in America. In these United States the *people* were sovereign. The men who represented our Country abroad were responsible, directly or indirectly, to them. If a treaty were involved, the responsibility was indirect (via the Senate); otherwise responsibility was direct (via the whole of Congress).

Transfer of New Powers to the Executive

"The theory of molding into one coordinated whole all the varying political structures of the world, and all its varying economies and standards of living, required that a basic segment of the sovereign power of the people of the United States be removed from them and absorbed into the American executive. The structure of government in the United States must be brought into line with older philosophies which elsewhere had not basically altered since time. The American executive must be made uninhibited, and thus able to meet with other executive authorities, with other governments, in order to determine with them what was to be done. The state, in brief, must become in such conferences all-powerful, as states abroad traditionally were. Then such meetings would be truly international – what they determined was what would be.

"That was the theory. And if the personnel of the new American executive could be fired with the vision implicit in the theory, all would be well.

First Step in Movement to Empower the Executive Branch

"The first step was to invest the American executive with the power sufficient to enter into its fulfillment.

"This step was taken by the Seventy-third Congress when it passed the Trade Agreements Act in 1934. The Act was explicit. The sovereign power which Congress had abdicated was absorbed by the executive, and thus removed from the people's control. That power is now being increasingly vested in international groups, and removed from our *Nation's* control. It is a sum of power which is

beginning observably to affect the life of every citizen among us. This is the essential result of the application of the theory set forth above. (George W. Malone, *Mainline*, New Canaan, Connecticut: The Long House, Inc., 1958, pp. 24-25.)

Nations of the Earth Embrace Socialism

The various political structures of the world are being prepared for adoption into international governance in all areas. For decades the people of the world have been indoctrinated with the tenets of socialism and internationalism. The people are being prepared for the establishment of global governance. Today every nation on earth has embraced socialism. The only difference is the degree of socialization which has taken part in each nation. China is, of course, the most socialist nation on earth, the United States is the least. Nevertheless, all nations have now embraced socialism. All nations have also embraced civil law, monopoly capitalism and finance capitalism and corporate socialism.

The Marshall Plan – Redistributing Wealth on a Global Basis

Senator Malone in the next few paragraphs outlines how the elite financial oligarchy rebuilt Europe with American taxpayer dollars and laid the plans for the development of the International Trade Organization. He wrote: "Again I submit that there is a test: Does the theory work; and is it right? These questions must be answered, and upon clearly demonstrable facts.

"A good place to start is with the Marshall Plan. The Marshall Plan was economic. In a way, the Marshall Plan might be described as an extension of 'reciprocity'. It was the means employed to bring the countries of Europe once more to the productive point from which they would 'reciprocate'. It would enable those countries again to make the products which constitute world trade. The Marshall Plan was America's contribution to Europe's peacetime 'rehabilitation'. The fit-loans had been followed by UNRRA; three and three-quarter billion dollars had gone to Britain in 1946. Now a vast five-year program was announced. It would raise living standards abroad; it would rehabilitate war-torn economies – and it would start once more, and greatly stimulate, 'world trade'. It would cost \$17,000,000,000.

"There was no announcement to those who would pay for the program that already, before a penny of its billions arrived overseas, the production level of those countries was actually above the level maintained before the war. In the least of them (excluding Austria and eastern Germany) the ratio was 110 percent, and in the one whose recovery was most advanced the ratio was 138 percent. The sole exception was of course Germany. For Germany there was devised the Morgenthau Plan.

Funds for the Marshall Plan Were Taken from the American Taxpayers to Build Europe's Industries That Were in Competition with American Industries

"So Marshall Plan funds were progressively appropriated from the American taxpayer and sent abroad. They were sent to 'bolster the economies' of countries whose economies already were from 10 to 38 percent above their level of before the war. The funds raised these percentages further still. And the plant and the machinery which went to industrial Europe went there to produce the very type of products which kept our own assembly lines running, and employed our men. And, as industrialists abroad – always in conjunction with the political authority, remember – would be bound to see the widest possible markets for their to-be-increased production, a plan was clearly needed to meet the situation.

"A plan was forthcoming, and almost at once.

"The plan embraced no mere relationship between two nations; it was not based even upon a constant receipt of observable funds from the United States, sent directly to the governments concerned. The plan reversed the entire procedure. The funds would become all but invisible. The plan gave direct access to the markets of the U.S.A.

A Consortium of Political Authority

"Working hand in hand, as was their tradition, European industrialists and their political authorities proposed a conference. Proceeding upon the power to which it had succeeded, the American executive at once concurred. The conference was held at Havana, in 1949. From this conference emerged a single great idea. An 'authority' would be set up. Its scope would be worldwide. All governments would agree to participation in it, and each would have one vote. This consortium of political authorities would be called the International Trade Organization.

No Mention of Liberty in the ITO Charter

"The conferees drew up a charter. This charter, upon subsequent examination, failed to impress one either with its clarity or with its principles. There was in evidence no overwhelming modesty on the part of those whose draft it was. One was not impressed that here were men who, burdened with their responsibility, felt that little by little, that piece by piece, a tremendously complex situation might be resolved. Nor could a good-willed citizen of these United States apply himself to its text and find in it hope that the liberty which he so long had might, however slowly, become gradually and appreciatively enjoyed by others throughout the world.

"What he did find was a non-elected executive authority, global in its scope. (Malone, pp. 27-28.)

A Global Plan for International Cooperation

Senator Malone next outlines the ITO program. He stated:

"The ITO was described as 'another step in international cooperation'. The press releases were widely publicized and they were almost a repetition of those of fifteen years before which promoted the Trade Agreements Act. The program, however, had now become worldwide....

"...Members (governments) were enjoined from subsidizing foreign trade, but they were permitted to subsidize foreign trade if their exports were affected by the subsidies of a nonmember;

"...Each of the charter's provisions is a qualified provision; each has a modifying clause. There is also a blanket clause. This clause states that if an import hurts domestic producers 'the member shall be free, in respect of such product, and to the extent and for such time as may be necessary to prevent or remedy such injury, to suspend the obligations [of the charter] in whole or in part or to withdraw or modify the concession.' Such escape clauses are not much use to us of course for, as you know, whenever the Congress proposes to amend an international agreement the executive immediately states to the Congress that such amendment will hurt 'international cooperation'; the executive at the same time floods the Country with press-releases, radio and TV scripts, and even with pronouncements from Cabinet ranks. This procedure, too, is in conformity with the whole theory, and it is why so many of our people have been so consistently, and so grossly, misinformed.

American Delegation Reduces U.S. Tariffs

"...The argument was offered that the charter and its escape clauses benefited us as much as it did others. This is not so. With us, the escape clauses only apply to tariffs. The same clauses permit other nations, traditionally operated on a politico-cartel basis, to continue to impose – or even to establish – far more lethal weapons of trade war, weapons which will be illustrated a little later. An example of how escape clauses operate took place at one international conference in the summer of 1947, at Geneva. The United States delegates had been empowered to make tariff concessions up to 50 percent of the duties then prevailing – in return for comparable concessions, particularly in the form of changes in the British system of 'imperial preference'. The average American tariff was there reduced from 32 percent to 25 percent. In return, 5 percent of the imperial preference rates were eliminated; 70 percent of them remained untouched. (The progressive elimination of 'imperial preference' had been one of the asserted benefits to be achieved by our joining the International Bank!)

The Development of a World Cartel

"...A reading of the ITO charter brings to the student's mind a strong suspicion. Free trade was a concept of the nineteenth century. Britain was then the preeminent trading and creditor nation. Sterling was convertible everywhere, and at stable rates. And Britain, from the very nature of her economy, was a free trade nation. The result of this, and other factors, was a natural and worldwide condition, one which developed according to the *mores* of its nineteenth century day.

"The more one studied the ITO the more one came to suspect that its charter was designed to bring back in the twentieth century the conditions of the nineteenth; that it would itself bring into being a world cartel which would determine the channels of trade, would allocate the commodities of trade, and would say who might purchase what from whom. Even more distinct was the feeling that the American market was the one great market which would be open, free to all;

The Establishment of an Economic Government of the World

"...The charter made it abundantly clear that a single entity was to be supreme. That entity was The State. Inherent in the charter of the ITO was an economic authority, itself composed of states. The authority could set up an economic government of the world.

A Charter for Complete Control of Trade

"To this supreme development of the tradition of older countries, America, the new, was expected to acquiesce;

"...To those who see in governmental interference a clearcut working of socialist doctrine, the charter of the ITO was alarming in its implications. It was described as a charter to 'free world trade'. It was found to be a charter for trade control. It required our Government to plan and control the economy of these United States; and it required the even greater control of that economy by the global authority which it was designed to create. It condemned cartels if they were private; it blessed them if they were governmental. It did *not* 'free' trade; the charter did the opposite, and in scholarly accordance with socialist doctrine.

"The result of its adoption would have been economic socialism, on a global plane.

"Those who have examined with studious concern the organizations on the political scene will see how parallel are these organizations on the economic. The movement of the pincers will be distinct and clear.

"The supranational authorities all have their counterpart in finance. The counterpart is the International Bank and Fund. All these organizations would be essential if world government were the goal. All are there. (Malone, pp. 29-30.)

Senator Malone proceeds in the next few pages to illustrate how GATT was designed to further the concept of global governance.

GATT

"The procedure set forth in the charter of the ITO first appeared as a series of general executive proposals. These were published by the Department of State in November 1945, as *Bulletin No. 2411*. Ninety days later, on February 18, 1946, a specialized agency of the United Nations (UNESCO) agreed to sponsor an International Conference on Trade and Employment. This conference was to put the general proposals into specific form. Its delegates met in London during October of that same year.

"Implicit in the State Department's original proposals were the following points:

- "1. The gradual elimination of tariffs;
- "2. A setting aside of our antitrust laws, and their subordination to an agency of the United Nations;
- "3. Intergovernmental commodity agreements; and
- "4. The planning of world production and employment, by an agency of the UN.

American Foreign Aid

"The delegates at the London conference extended this program. From their deliberations emerged the 'Point 4' program, the Marshall Plan, and an understanding that America would embark upon a long and extended policy of 'foreign aid'. To the initial proposals was also added the proposition of establishing an 'international Agreement Relating to Industrial Production.'"

"The next meeting was set for Havana. It was here that the ITO charter was born.

"In 1951 the President appointed a Materials Policy Commission. William S. Paley was named chairman, and the report which it made became known as the Paley Report. The Commission submitted this report in June of 1952. It was an interesting report in many ways. One was its reference to the ITO.

"Presumably the ITO had been still-born; presumably it was dead. Nevertheless, alive or dead, responsibility for its provisions appeared somehow to have devolved upon the people of the United States. This responsibility did not come to them of their own free will. The responsibility was accepted for them by resolution. The resolution itself was passed by a social, political and economic authority, global in its scope. The fact of this responsibility was remote from the people's knowledge, and excluded from their control.

U.S. Is Bound to Accept Portions of the ITO Charter

The Paley Report said: "The United States has not ratified the [ITO] treaty, but under a resolution of the United Nations Economic and Social Council is bound with other nations to recognize chapter VI [of the ITO charter] as a general guide.

"And what was Chapter VI of the supposedly dead ITO, which we were 'bound with other nations to recognize'? Chapter VI originated from the *Proposals for Expansion of World Trade and Employment*, which the American executive branch had published in 1945. It was the section of the ITO charter which was 'to assure the equitable distribution of a primary commodity in short supply.'

"Here is illustrated the extent to which our people have allowed to lapse the principles of self-government; how America's industrialists and businessmen have lost control of normal access to primary commodities by means of which they function; how our farmers lose control when an agricultural product is declared 'a primary commodity in short supply'; and how these United States have themselves lost control over normal access to prime essentials by which our people live and by which the Republic can be kept secure.

"Has this normal access been lost by treaty? Not in this instance. Has it been lost by executive agreement? Again, not in this instance. It has been lost, but how? By 'resolution'. Whose resolution? The resolution of a single specialized agency of an international organization.

"UNESCO was the specialized agency; UN was the international body.

U.S. Bound by an Organization That Does Not Exist

"And what does this particular 'resolution' declare? It declares that we, these United States of America, are 'bound' by a single chapter of the international charter of a global authority which does not exist.

"By the simple expedient of declaring a commodity in 'short supply', a global authority can thus make or break whole sectors of our economy, and close down production vital to our Nation's defense.

"And thus, beneath its velvet wrapping, is bared another of the pincers' teeth. The political slogans of 'international cooperation' and of 'collective security', and the economic slogans of 'reciprocity' and 'world trade' are seen to come together, merging into one. And this is the ultimate slogan of them all, the one around whose implications there must be no controversy, about which there must be no question, whatever may be its means and cost. As the pincers close, as the pressures rise, those caught within the movement will have lost their status as free citizens of this Republic – but they may have purchased 'peace'. The actual means and purchase price must not, forsooth, be questioned.

"It is a 'doctrine', ultimate and sublime.

The Tenets of Internationalism Are Being Taught in the Schools of America

"The generations which follow are expected to welcome this estate, for its theory is being devotedly taught our children, in our schools. The theme is 'world understanding'.

"The Preparatory Committee of the Conference on Trade and Employment had met in London during September of 1946. This Preparatory Committee recommended procedures to give effect 'to certain provisions of the charter of the International Trade Organization by means of a General Agreement on Tariffs and Trade.'

The Birth of GATT

"Then – and with the ink scarcely dry on the proposed 30,000-word charter of the ITO – the Preparatory Committee reconvened in Geneva. Their sessions were held from April to October, 1947. Out of this conference came the General Agreement on Tariffs and Trade. This last became known by its initials, GATT.

"Originally, GATT had been planned as a complement to the ITO. The ITO charter referred but lightly to it, in a single paragraph; a mere footnote had explained that GATT was the 'proposed arrangement' for the 'concerted reduction' of tariffs and barriers to trade.

"However, the ITO charter was discovered to contain so many provisions which were clearly inimical to the people and economy of the United States that its acceptance by the Senate seemed dubious. The charter was therefore permitted to die in committee. In this manner the ITO failed at birth. Not so with its complement, GATT.

"What GATT, a different procedure was employed. The procedure was executive proclamation.

"The foundations of the ITO had been carefully planned, and ground for its structure reserved. When the structure failed of creation, the space reserved remained a vacuum. Into this vacuum came GATT. The *theory* of controlled and regulated trade – foreign and domestic – was the single, dominating idea within.

The Effect of GATT Upon America

"In GATT, the 1934 Trade Agreements Act found ultimate expression. If GATT is permitted to remain in being, if the theory upon which it is based is not repudiated, its effect upon our people, our economy, our employment; upon our laws, our commerce and our politics, will painfully and progressively increase. I use the word 'ultimate' in the sense of *basic*. It is basic – ultimate – in these two ways:

"1. GATT ends our American policy of *bi*-lateral trade agreements, and adopts – finally and conclusively – the concept of multi-lateral agreements which is completely alien to our commercial life. It is an old-world concept, under which we no longer make agreements with single nations, on a basis of give-and-take. By applying the 'most favored nation' clause, we extend automatically to *all* nations the concessions which are found advantageous between ourselves and one;

"2. GATT, as an international entity – from which others can spring, and will – is in no way whatsoever responsible to the elected representatives of the people of these United States.

Representative Government Is Not Outdated in America

"There are those who argue, and sincerely, that a 'new progressive era' is upon us, and that such mechanisms as ITO and GATT are essential to that 'new age'; it is further argued that from them our own people and Nation benefit equally with others, that what we may sacrifice at one point will be recompensed to us at others. On the latter I do have strong doubts, and am by no means unprepared to state them. But 'benefits' – imagined or real – are not what I have in mind. What gives rise to my concern is something very different. I am deeply concerned at, and opposed to, the manner in which the entire movement itself is proceeding. And I reject outright the theory upon which it is based.

"I reject, most emphatically, the idea that the elected representatives of our people are no longer to be directly responsible to the people for their acts; the idea that our representative government must lose its character, and is to be increasingly beholden to executive authority – whether national or international; that either our own executive, or that international executive authorities, can do for our people what they cannot, with representative government, do for themselves; and the idea that our citizens, individually or as associations or as corporations, are to lose the effective right to present their wishes to their elected public servants – for the

astounding reason that those who are elected are to be no longer responsible to those who put them into office.

America's Political and Economic Sovereignty Is at Stake

"For that is the situation in cold fact, and we might just as well face it. What is at stake is the *representative* nature of our Union of sovereign States.

"Back in the 1930s it seemed that our entire national structure might collapse. It seemed that, despite the magnificent success of our entirely new theory of self-government and individual self-reliance, the result must be a failure. Perhaps if we had taken more time; had we perhaps not been in such a (characteristically American) hurry, we might have seen that its flaws could with patience be removed – without impairment of our own peculiar concept and belief. We even might have found ways to not again experience such tragic collapse, and yet still adhere to our own new, American way. We might have studied that concept of ours more carefully, and found that what was happening was not the result of theory but had come about from errors in its human operation. We might have found those errors, and have proceeded to their correction while retaining the essential base upon which our body social, politic and economic for so long had rested.

Adoption of the Old Tenets of Socialism and Statism

"We did not do that. We abandoned our new philosophy and, all unconsciously, we slid backward into the old. That philosophy had for so long been unknown to us that to many the old did seem the 'new' – and we were told by some that it was. Yet it was an ancient concept, and it said: The State can do for me, and must, what I cannot do, or may be unwilling to do, for myself.

"It was a theory, and for centuries it ruled all human life.

"Politically, economically – and now 'socially' – The State took over, as it always has done, and, when it is permitted to do so, as it always will. And as gradually The State took over, the ancient theory itself was broadened. Now it said: The International State will do together what none of its single states can do alone.

GATT Is An Instrument of the Growing International State

"GATT was an instrument of the growing International State.

"It was a 'key element in the Nation's foreign economic policy', to be 'carried on under the authority vested in the President by the Congress in the trade agreements legislation.' GATT would make rules and regulations on tariffs and trade – and it would make concessions and exceptions. It was designed for 'the orderly expansion of international trade'; its interests would include 'a balanced and expanding world

economy...[the] international flow of capital, higher standards of living, full employment'. It would undertake to promote 'economic and social progress'.

"Implicit in its vision was Cordell Hull's romantic dream. Trade would be international, and it would be 'free'.

"Congress, it was claimed by the executive, had passed the enabling legislation when it passed the 1934 Act. No objection to GATT was heard from other nations. What GATT could not do at its inception was cause for little hesitation on their part. It could amend itself. It could, in other words, add to itself such powers as might initially not be present; it could vote unto itself such powers as it might wish. No; there was no reluctance shown by other nations. They would be in control.

America's Economy Now Controlled by an International Cartel

"At long last, the profits-laden marts of the United States had been made accessible to products made by labor which had no such high-paid standards as do ours, and opened to employers who paid them no such rates. America's industry and agriculture, always in competition with the politico-cartel arrangements of an older world, found themselves now enmeshed in the machinery of that cartel, made worldwide. A few found it possible to 'play ball'. And they did.

"Not a word in GATT, nor in any of its proposed extensions, reveals the slightest interest in the American workingman, in the American investor, in the American farmer, or in the American citizen. And if it happened that any of these came to be adversely affected, for them a plan would later be produced.

"GATT became an established fact. A steady flow of funds from the United States could now swell the gigantic pool of loans and gifts, as from an invisible spring." (Malone, pp. 31-36.)

Indoctrination of the People in America and Throughout the World

In order for a system of global governance to be implemented in the world it was necessary for the Western world's establishment to indoctrinate the leaders and the people of the world in their philosophies. Senator Malone notes: "In view of the colossal sacrifice involved – in men and in real wealth – the theory required influential acceptance and support from the start. Two courses were adopted to realize it, and they were these: (1) Individuals and organizations, public and private, were found and to them was presented the glittering promise of a new utopia; and (2) an historical blackout which amounted almost to continuing censorship was gradually contrived. The first of these courses was open and aboveboard; the other was quietly done, and it took time. Eventually it made 'controversial' – even incredible – such books as this, however documented might be their facts." (Malone, p. 38.)

A Detailed Plan for Global Governance

According to Senator Malone there has been a tremendous movement to bring the American economy under the domination of GATT. He wrote: "If it is suggested to the executive that some alteration be made in an international agreement which is proposed, a normal alteration designed to protect America's interest, what happens? A vast publicity mill is instantly put in motion. People are informed that some 'obstructionist' is getting in the way of 'international cooperation'. They are told that some other nation will be 'hurt', that it will not 'understand'. We must continue to 'make sacrifices for the common good'. If the 'obstructionists' have their way, the results will be dire indeed.

"When industry representatives come to Washington and say, for instance, that the low tariff on bicycles or watches is hurting them, what happens? The publicity mill is push-buttoned into action. People are informed that Britain and Holland 'look with grave misgivings' at such normal protective action on our part, that Switzerland 'will not understand'.

"No longer does a select committee of the Congress hear the argument, and then determine its course of action. The final course of action is determined by non-elected personnel in the executive branch. What is their procedure? They listen attentively – or not – to the Americans' case. They receive the Tariff Commission's report. Then they turn it down. It does not fit into our foreign policy; it is against the overall theory being pursued.

The U.S. Congress Abdicated Its Constitutional Powers to the Executive Branch

"The unemployed, the men and women who are displaced, cannot go to Washington. No one even hears of them. They write their Congressman, of course. And the Congressman is powerless. He is powerless in this matter because the Seventy-third Congress abdicated its rightful power, delegated to it by the States and people in *Article 1, Section 8* of the Constitution.

"The unemployed or displaced working man has no recourse. He must find another job, or sign up for 'relief'. Like corn or oats, his time is purchased and put in storage, perhaps to be offered later on the market at a bargain price.

"When business, industry, farm or labor or citizens' organizations appear in Washington to protest, the word goes out and the publicity mill is put to work. The Nation is told that 'selfish interests' again are pleading for 'special treatment', and that these interests – citizens, like you and me – are interrupting the even tenor of 'international cooperation' to accede to their urgency would 'increase inflation'.* (*Publisher's Note: This assertion by advocates of the policy is refuted by the facts. Using (only the) 1947 dollar as a base, the Department of Commerce in 1957 published its depreciating value over the past decade. This (1947) dollar

depreciated \$13,800,000,000 during the single year 1956. Its ten-year depreciation totalled \$82,700,000,000. Here was the actual cost of the present policies – in price inflation.)

"The theory requires acceptance of a unique belief, and it is this: Support for anything international is described as not inflation; protection for anything at home is termed inflationary.

"And what of the men and women on our farms? The several farm organizations can meet with representatives of the executive, and they do. They cannot say to that executive: 'You listen to us and to our grievances, or we'll vote you out of office.' No; they cannot say that. The executive's personnel are not voted into office. The executive with which farm organizations are obliged to treat is appointed – and often self-appointed – to its post.

"It is a fact that farm organization after farm organization has repeatedly gone on the record as opposed to farm subsidies in any form. The executive's publicity mill is silent on this fact. It is in opposition to the global theory.

"Every farmer knows that certain agricultural products have been placed on an import-quota basis by the Government. Only so much cotton, grains, dairy products and peanuts may be imported into the United States in any single year. This is to 'protect the home market', of course. But what do other nations – those other nations which are our friends, and which are so deeply imbued with the new era feeling for 'international cooperation' – have to say to this? How do they react?

"They react 'in the spirit of GATT'.

"The 'spirit of GATT' is illustrated by an article in the National City Bank (N.Y.) *Letter* for June 1955:

"At the Geneva conference this year to revise the 34-nation General Agreement on Tariffs and Trade (GATT), U.S. requests that member nations end quantitative restrictions on imports – particularly the discrimination against goods bought with dollars – caused delegates from other countries to point to U.S. import quotas on farm products as a case of the pot calling the kettle black.

"Whenever U.S. representatives pleaded for tighter regulations to reduce or eliminate the disruptive effect of governmental buying and selling of raw materials and manufactured products, other countries cited U.S. sales of butter and grain from CCC stocks. The president of Australia's National Farmers Union was quoted by a Geneva newspaper: 'By her irresponsible disposal of agricultural surpluses the U.S. is flagrantly breaking the spirit of GATT.' Even more terse, the *Manchester* (England) *Guardian* pictured the United States as asking GATT for 'legal permission to live in a state of sin.'

"In an attempt to soften concern about possible dumping, the U.S. informed other GATT members that she was prepared to accept limits on her freedom to subsidize exports of farm products. While this was the first time in history the U.S. agreed to limitations of this kind, smaller countries, still fearful of competing with the U.S. Treasury in a subsidy war, apparently are skeptical.'

"Was this a mere instance? Was this the unfortunate remark of a diplomat who possibly had a bad night?

"Or was this expressive of the fundamental policy, of the basic articles of agreement, which is the charter itself of GATT?

"Let us see.

A Global Economic World Is Being Assembled

"The People of the United States are Permitted...

"My training as an engineer taught me at an early date the meticulous care which is required in calculating stresses and strains and torques. It also taught me the necessity for providing a 'factor of safety', in any construction. The engineer is little interested in a structure's color or in its decoration, attractive as these may be. He is interested in the blueprint, and in the unseen factors which go into a construction. He is concerned, as you know, with stress and strain and torque.

"As this book is read, it will be subjected to stress and strain and torque – to a great deal of it. Interested parties and organizations will attempt cleverly to divert you, and at times they may succeed. They will not take you into the blueprint room; they will not show you the foundations; they will not take you through the inside structure of this global economic world. You will be shown its color, and decorations; you will be shown its facade. You will be shown all that is most attractive.

Citizens Must Demand That Congress Take Back Its Power Over Trade and Commerce

"To find out what goes on within the building one has almost to wire the place for sound. 1 An elected representative of the people of these United States can report to you such essential matters only by dint of painstaking and concentrated work. And when you have before you the results, then you – citizen of the Republic – face no easy task. To bring this Government of ours back to proper citizen-control, it is essential that you demand that *your own representatives*, in this instance the Members of Congress, take back the Constitutional powers which have been abdicated. You can control the Congress.

"The theory of executive rulership has gone so far that the citizens of this Republic are actually being permitted a course of action – *permitted*, if you please – by an international agency to which the power first abdicated to our own executive has been transferred.

"The remarks at Geneva were not isolated remarks. They were remarks which are perfectly natural to a body which has itself received all but plenary power to act. Such power is fundamental to the charter of GATT.

U.S. Farmers Put Under Restrictions of GATT

"On March 7, 1955, dispatches from Geneva read:

"The 34 nations of the General Agreement on Tariffs and Trade (GATT) have granted permission for the United States to continue to impose quantitative restrictions on certain agricultural products. But the members also gave other countries permission to retaliate and seek compensation if affected by the restrictions, which are contained in section 22 of the United States Agricultural Adjustment Act.

"This section mainly concerns imports of dairy produce and had led to clashes with several nations in the past. Holland once retaliated by slashing imports of wheat from the United States. The United States is understood to have assured GATT that it will end any restrictions under the act as soon as they are no longer needed and consult with interested countries before taking further action.'

Subjugation of American Farmers

"If one discerned in this a subjugation of our farmers to the requirements of a foreign policy which was being internationally determined – and some discerned just that – the executive turned on the publicity mill and our people again were shown the glistening facade of the global structure which was being built.

"Then GATT itself released the 'decision' in a published report. This report received little publicity. There was no avalanche of editorials on the matter. The press was discreetly silent.

"GATT's report was entitled *Decision to Grant a Waiver to the United States in Connection with Import Restrictions Imposed Under Section 22 of the United States Agricultural Adjustment Act (of 1933), as Amended*. The following is verbatim from that 'decision':

"1. Upon request of any contracting party which considers that its interests are seriously prejudiced by reason of any import restrictions imposed under section 22, whether or not covered by this decision, the United States will promptly undertake a review to determine whether there has been a change in circumstances

which would require such restrictions to be modified or terminated. In the event the review shows a change, the United States will institute an investigation in the manner provided by section 22.

"2. Should the President of the United States...cause an investigation to be made...the United States will notify the contracting parties and, in accordance with article XXIII of the general agreement, accord to any contracting party which considers that its interests would be prejudiced the fullest notice and opportunity, consistent with the legislative requirements of the United States, for representations and consultation.

"4. As soon as the President has made his decision following any investigation the United States will notify the contracting parties...[and] If the decision imposes restrictions on additional products or extends or intensifies existing restrictions the notification by the United States will include particulars of such restrictions and the reasons for them regardless of whether the restriction is consistent with the general agreement.

"5. The United States will remove or relax each restriction permitted under this waiver as soon as it finds the circumstances requiring such restriction no longer exist or have changed so as no longer to require its imposition in its existing form.

"6. The contracting parties will make an annual review of any action taken by the United States under this decision. For each such review the United States will furnish a report to the contracting parties showing...the restrictions in effect under section 22 and the reasons why such restrictions (regardless of whether covered by this waiver) continue to be applied and any steps it has taken with a view to a solution of the problem of surpluses of agricultural commodities.'

Further GATT Restrictions

GATT states elsewhere in its 'decision':

""(a) To help solve the problem of surpluses...the United States Government has taken positive steps aimed at reducing 1955 crop supplies by lowering support levels or by imposing market quotas at minimum levels permitted by legislation; and that it is the intention of the United States Government to continue to seek a solution of the problem of surpluses of agricultural commodities.

""(b) The assurance of the United States Government that it will discuss proposals under section 22 with all countries having a substantial interest prior to taking action, and will give prompt consideration to any representation made to it.'

GATT Was Not Voted upon by Representatives of the People

"Here is the blueprint; here are the plans. Our Government signed the original blueprint and it agreed to the plans. Our 'Government'" Not our *representative* Government. The Senate did not examine, weigh and debate the blueprint. The House did not examine weigh and debate it.

"Then how was the original blueprint designed and signed? It was designed and signed by the executive. GATT then was promulgated by the executive, in December 1947. Now, by this Geneva 'decision', the Government of the United States would be required to do for *foreign* interests what that Government, by the Articles of its Constitution, was mandated to do for its own.

"Upon business, upon shipping, industry and agriculture, and gradually upon every sector of our economy, the impact of this 'decision' would fall.

Citizens of America Being Subjected to GATT

"The executive *alone* agreed to this procedure. Not one word of mine is needed to tell you that here, in GATT's 'decision', is assumed a sovereignty which is as clear as it is simple and absolute.

"By gracious waiver, this international authority permitted the United States of America a course of action. The permission was conditional, too, for report-cards must be submitted to the supreme authority.* (*The first report-card was submitted in November 1955. The measures adopted pursuant to its obligations were listed in detail, and the American executive hoped the supreme authority would agree that it was 'moving in the right direction'.) The American farmer was voiceless and he was helpless. He was become a peasant, beholden to the program of an international authority which he can neither meet with nor control.

"And what one authority – GATT – can do to farmers and growers it and other global authorities can do to industrialists, to steamship operators, to men of business. They have no recourse. They may plead with the local executive, to be sure. The local executive is resident in Washington, D.C. But that executive, in turn, must plead with an international authority. It must plead with a supplicant's voice.

"The people of this Nation? They have no voice at all. They are to consider themselves 'citizens of the world'.

For the World, a New Era – for America, A New Social Order

"In education, in politics and in economics there emerges the evidence of a plan, seemingly coordinated, to mold into a 'new order' all of human endeavor. Its

documentation to the contrary notwithstanding, all evidence is met with denial. The evidence mounts.

"The painstaking work of *documenting* this evidence has been undertaken by many people, and very often it has entailed sacrifices which are considerable. Evidence of the existence of a plan has been separately offered and documented in the fields of education, of politics and of economics. Evidence has begun to appear in the fields of science and of sociology. Like all true research, the work has required the utmost concentration.

A Coordinated Plan for Developing a New World Order

"In their essential concentration, few people as yet have had the time or the resources to discover that – plan or no plan – there is mounting evidence of coordination. The program whose impact strikes first at education, strikes later and inevitably at politics and at our economy. Where the impact is first felt in politics – as in the Status of Forces agreement – it strikes later and inevitably in the fields of economics and of education. Where the impact is at first in economics – as with the Trade Agreements Act – later, inevitably, the impact strikes in our schools and in the business world.

Patriotic Citizens and Leaders Are Smeared by Proponents of Global Governance

"There is to be observed another phenomenon, and it is this: The personalities, and the organizations who and which defend the program in one field, are found to be the very personalities and organizations who and which defend *other* programs in the other fields. They are the same personalities and organizations who and which decry, even besmirch and smear, their fellow-citizens who are exercising the God-given right of individual judgment and action in actively opposing a plan of whose existence they are convinced.

Transforming the Schools in America

"In our schools, interested persons and organizations are promoting a theory which way back in 1933 stated that – and this highly significant statement is *not* 'lifted out of context' –

"The school can scarcely hope to function effectively until society is already transformed...." (*The Turning of the Tides*: Hon. Paul W. Shafer and John Howland Snow. The Long House, Inc., New York, 1953, 1956, pp. 149-50.)

"Sixteen years later, UNESCO – an agency of the world *political* organization – set forth its own, universal, development of that theory, and stated that

"To fulfil such expectations it is clear that everything in the world would have to be changed....' (*The Turning of the Tides.*)

"It is denied that there is any connection whatsoever between the educational program and the political developments. Yet at least one nationwide education association openly states that there is "'an intimate connection between the domestic effort to achieve a more socialized economy and the world effort to develop a democratic system of collective security.'" (*The Turning of the Tides.*)

The Public Schools in America Are Saturated With New Studies Advocating Internationalism

"Whatever their merits or demerits, certain it is that a number of programs – whether separate or coordinated – are taking place; that their advocates receive widespread audiences in our schools; that the writings which propound them are quickly installed as texts and as 'recommended reading'; that influential book reviews are given over almost exclusively to them; and that no avenue of publicity is overlooked in their promotion.

"It is equally certain that the views of other citizens whose studies lead them to raise their voices – and in however scholarly a fashion – in examination of or in objection to the several programs, find no such ready, receptive channels of free discussion, and no comparable underwriting for their research and distribution. This is demonstrably true, from school assembly lectures to teacher-appointments; in men's and women's clubs; and with radio, TV and newspaper and magazine reviews. 'Academic freedom', in other words is ever-present-if the views expressed do not diverge from those whose interest it is to promote them.

"This book is primarily devoted to the *economic* impact of the pincers. The impact upon our business life can be felt, and seen. Limited as my political and educational references perforce must be, justice would not be done were it not stressed that the pincers movement is all-embracing, and that all of us are its victims – accidental or intended.

"Within its compass, under the cloak of 'collective security', there is now developing a pattern which is not merely dangerous to our safety as a Nation; it could be fatal. This pattern concerns materials of vital military and strategic importance. Some of their sources are in our own back yard; some are in the Western Hemisphere; others are more distant.

"The very essence of militarily strategic materials is their availability. further, I believe that you will agree that, for our own Nation's security, we are perfectly willing to pay higher prices for such materials in order to assure their ready access in time of true emergency.

"The opposite course is being pursued.

Creating a State of Dependence upon Other Nations

"Mica, for instance, was flown in under top priority, from India, during the second world war. Why didn't we mine our own mica? That did not suit the 'new era' policy. Under that policy we are becoming increasingly, and alarmingly, dependent upon distant sources for such vital materials as uranium, manganese, industrial diamonds, tin and columbium. During the war, under War Production Board Order *L-208*, we shut down our gold mines. Gold mines, however, continued in operation abroad. We made mining machinery and exported it, to keep foreign gold mines in operation. Naturally, our mines flooded. Miners went into other occupations. Such metals as silver, lead and zinc were soon in short supply. We began to purchase them elsewhere. This pattern has been developed to such an extent that in the event of conflict we could be almost entirely dependent upon distant sources for many of our most vital materials of war. Our ships would be forced to sail over thousands of miles of submarine and airplane infested waters, and our seamen would be forced to man them. The situation is so fraught with clear and present danger that a committee of the United States Senate made it the object of an intensive investigation.

The Need to Develop Policies Which Foster Independence

"The Minerals, Metals and Fuels Economics Subcommittee of the Senate Committee on Interior and Insular Affairs undertook the task. Its report was published July 9, 1954 as *Senate Report 1627*, and is available from the Government Printing Office at Washington. The *Report* fills 415 pages, including the index. It summarizes 10 published volumes of evidence, secured through 58 hearings which extended over a period of ten months. The Subcommittee had the assistance of some of America's most able industrial and military men. Its *Report*, in the strongest possible terms, recommended a total shift in our strategic materials policy. It recommended a shift to American producers, and to producers in the Western Hemisphere. It recommended the normal, natural and understandable policy of basing our Nation's defense potential upon materials sources which would be as safe for us as possible, as close to us as possible, and as far removed as could be from potential enemy control. It said:

"The Committee determined that the Western Hemisphere can be defended and that it will be the only 'dependable' source of the necessary critical materials during any all-out world war.

"The advent of the long-range sonic speed bomber and fighter planes, guided missiles, radar control, and nuclear-powered submarines, through the use of new and improved materials including uranium, titanium, columbium, thorium, zirconium, and tantalum has strengthened the defensive and offensive position of the Western Hemisphere.

The National Security Posture of America Is Being Threatened by Global Integration

"To all intents and purposes, the executive ignored this *Report*. The findings lent neither credence nor assurance to the theory by which the executive was obsessed.

"Neither the political nor the economic programs pursued since the adoption of the Trade Agreements Act of 1934 have strengthened the defensive position of the Western Hemisphere. The policy which has placed more and more American ships under foreign flags – and 30,000 of our own seamen 'on the beach' – has not strengthened our own defensive position at sea. The policy which flooded mines and put our own miners out of work, has not strengthened our defensive position. The policy is making us – and the entire Western Hemisphere – steadily and increasingly more dependent upon distant sources for critical war materials. Foreign sources which can stop – as they have stopped – the shipment of Minnesota sands (used in atomic fission) to us in time of peace, can stop the shipment of *any* critical material in time of war.

"The program completely disregards the natural common interests which could bind in growing cooperation the peoples of the two great continents of the Western Hemisphere. Yet real concern is being voiced by responsible sources among the very ones who are closest to us, our good neighbors to the north with whom we have the longest undefended frontier known to history.

U.S. Trade with Canada

"Canada's tourists are spending each year a hundred million dollars more in the United States than our folks spend in travel there. Her trade with us amounts to 59 percent of all her foreign business. She purchases more agricultural products from us than we do from her, by over a hundred million dollars each year. She buys several times more of our exports than does our second-best customer, and the amount is increasing. She buys one-quarter of all our exports. Her American purchases during 1954-5 equalled those of all of western Europe combined – though Europe has sixteen times her population.

"The descriptions we hear of our foreign trade become somewhat less impressive when we take into consideration these shipments to our own next-door neighbor. Moreover, our policies have been hurting this natural and valued friend. They have contributed materially to the largest trade-deficit in Canadian history, and responsible citizens there are observing – with truth – that in regard to Canada's greatest single export commodity, wheat, they seem to be holding a price umbrella over our practices of surplus-disposal. 'How', they observe, 'can we compete? Who will buy our huge accumulation when wheat can be had for the asking, or for local currencies which then remain in the countries of purchase?' Canadians are also concerned lest a revision upward of our tariffs not seriously

affect their lead and zinc mines, their fishing and lumber industries, and their growing petroleum trade. (Canada is presently a new importer of American oil.)

A Concept of Western Hemisphere Defense

"A concept of Western Hemisphere defense, including its natural communality of economic interests, would take these things into consideration, and I believe they should be taken into consideration. Militarily, the Western Hemisphere can be defended, as *Senate Report 1627 – (83/2)* made exhaustively clear. Economically, a flexible tariff could not only accomplish the reasonable objectives of commerce and trade, it would be fair to our natural friends and honorably retain their friendship.

GATT Is an International Institution Superimposed Over America's Representative Government

"GATT is an international authority superimposed over our own representative Government. And GATT, if designed for the purpose, could not be a more effective means to make our Nation progressively, then all but completely, dependent upon foreign sources for our defense and war-making potential.

"That is the hard cold fact.

"At its base is stark military necessity. And the final assessment is this: If we are attacked, do we survive or perish?

"The political arm of the pincers, as I have said, is the more open, the more sensational. As our citizens awaken to the peril, they may well succeed in freeing us of it. We will then be confronted with the ultimate force, and this is economic. And we will find that it has bound us *strategically* to 'the new world order'; we will have been bereft of strength. In defense, we will be impotent.

"Here is the ultimate impact of its force and pressure.

"Freed from the one, we will find ourselves inextricably bound by the other. For the ultimate in its pressure is this: By following a global theory, *we will have surrendered all reasonably direct access to the critical materials upon which our military strength is based.*

"That is the importance of our recognizing the dual program, the political and the economic, and the global theory which is at its base." (Malone, pp. 57-68.)

GATT is Transformed into the World Trade Organization

In 1994 the General Agreements on Tariffs and Trade was transformed in a new and more powerful organization – the World Trade Organization. It appears to be a

stylized version of the PTO proposed by Miriam Camps and her elite colleagues and supporters. The stage is now set for control of the world economy by elite groups in the United States, Europe, Asia and elsewhere. The birth of the WTO signalled the death of free market economics in the United States and throughout the world. A new era of "managed trade" on a global basis is underway.

15. International Bank for Reconstruction and Development – Redistributing Income on a Global Basis

Part I – Introduction

If Karl Marx were alive today, even he might be surprised to see the World Bank in action. Marx and his socialist philosophy call for massive redistribution of income through the instrumentality of the state. Since its inception in the 1940s, the World Bank has been engaged in a subtle form of redistribution of income on a global basis.

The main purpose of the World Bank is not as it appears on the surface. Its publications and documents are full of benevolence and concern for the poor and needy of the earth. The International Bank for Reconstruction and Development (IBRD) utilizes taxpayer's money to loan to foreign nations, predominantly the lower development countries (LDCs). It would appear to be a valuable organization, however, just the opposite is true.

A Vast Network of Interlocking International Institutions

The World Bank lies at the center of a vast network of powerful, interlocking, international institutions – the OECD, IMF, BIS and GATT (now the WTO). The reader will recall that the IBRD, along with the International Monetary Fund (IMF) and the International Trade Organization (later remolded into GATT) were conceived at the United Nations Monetary and Financial Conference which was held in June of 1944 at Bretton Woods, New Hampshire.

The three global institutions, sometimes referred to as the Bretton Woods System, were designed by architects of the Council on Foreign Relations in New York. Their purpose was to maintain and extend the international economic, financial and trading systems.

The World Bank Receives Billions of Dollars for Taxpayers

The World Bank performs a great service for the international bankers, investment bankers and corporate directors of the world. The World Bank receives billions of dollars from taxpayers in the western world. The United States taxpayers donate 24% of the contributions. The IBRD then utilizes this money to build the infrastructure of the LDCs. This is done in order to ensure a future command market and to extract natural resources and minerals from each nation.

Building the Infrastructure of LDCs

The large companies who need the raw materials and natural resources do not want to pay the price of constructing dams, power plants, roads, railroad systems, airports, water ports, communication systems, agricultural lands, etc. Ann Hughey writes:

"The bank was set up in 1945 to lend war-torn nations the money to rebuild. Later it turned to lending to developing nations. Its International Development Agency was set up in 1960 to provide interest-free loans to the poorest nations. For years the bank loans were confined to projects like railroads, highways, and power plants. This old-style lending was accompanied by great economic growth that made the developing countries more attractive for later infusions of private capital, both foreign and domestic." (*Forbes*, May 26, 1980, p. 123.)

After the construction of an adequate infrastructure, the giant multinational corporations move in. It should be noted, however, that many global companies do assist in the building of a country's infrastructure.

Imposing the Ideology of the Elite on the LDCs

Loans to LDCs are also based upon strict requirements which impose the value and ideology of the elite upon countries accepting loans. As one World Bank staff member noted, "The bank runs a \$11.5 billion-a-year lending program, and a long with that goes a lot of influence on policies and how governments behave." (*Institutional Investor*, September 1980, p. 34.)

World Bank Promotes Ideology of the Elite

Admittedly, the IBRD has helped some nations and its people, however, these countries would be a great deal better off and even more advanced if they were not exploited by the global elite.

The Only Way for Lasting Prosperity

It is apparent from the policies, publications, official documents and speeches of key officials, that the World Bank is not interested in fostering the principles of freedom or free institutions in these countries. For years the IBRD has been promoting the ideology of the global elite. It has been assisting tyrannical governments and dictators whose disregard for human life and freedom is apparent.

LDCs Turn to Global Financial Institutions

The LDCs have found themselves facing a great dilemma. They need the money to build up their nations and there is no one to turn to except the global

institutions and private international banks. There is also an absence of qualified personnel who are trained in solving problems utilizing the principles of freedom.

Piecemeal Construction of a Global System of Government

The LDCs end up adopting the values, principles, ideologies and institutions of the elite financial oligarchies of the West which further multiply their problems and cause further loss of freedom. The elite know that the people will finally give in and join the new international economic order which they oversee. The elite have a definite plan for "managing" the earth as one single "economic unit." The inhabitants of the earth, however, are reluctant to adopt all of their plans, that is one reason for conflicts on the earth today.

A War Between Internationalism and Nationalism

The forces of the "new Imperial System" (internationalism) are colliding with the forces of freedom (nationalism). The war will only intensify as the elite forces utilize greater force to accomplish their long-range goals.

The World Bank, which budget increases yearly, plays a great supporting role for the international economic system designed by the elite. It is attempting to totally dominate and rule over the LDCs. Whether they realize it or not, the LDCs are daily sliding into greater and greater bondage to the elite power structure of the world.

An analysis of the incredible debt level of the Third and Fourth World nations attests to their servitude to the global institutions and banks.

Part II – The World Bank

Let us now look at the World Bank in Washington, D. C. An official overview of the IBRD states that: "The World Bank provides financial and technical help for the development of poor countries. It is now lending about \$7,000 million a year to help raise the standard of living in developing countries. This is approximately one-fifth the total from all official sources outside the developing countries themselves.

"The Bank has expanded rapidly in recent years (see tables on pages 2 and 7). In fiscal 1977, it provided more than five times as much financial help to developing countries as in any year before 1969. These funds are helping to support a wide variety of projects, large and small, public and private, chiefly in the following fields: agriculture and rural development, education, electric power, industry, population planning, tourism, transportation, telecommunications, urban development, and water supply.

The International Development Association

"Thanks to increased contributions in recent years by the wealthier members of the Bank's affiliate, the International Development Association (IDA), more assistance has gone to the very poor countries that are most in need. The Bank has also committed itself to helping member countries with their more intractable development problems. These include questions of income distribution, rural poverty, unemployment, excessive population growth, and rapid urbanization.

The World Bank and the IDA

"The term, 'the World Bank, as used in this leaflet, refers to two legally and financially distinct entities: the World Bank and IDA. The two constitute, however, a closely integrated unit, and are administered by the same staff. Using funds from different sources and lending on different terms, they have become a highly flexible instrument for giving both financial and technical assistance to developing countries at virtually all stages of economic and social growth. Together, they have become truly a development institution.

The Founding of the World Bank and the IMF

"On a global scale, the World Bank was the first institution to be established with the explicit purpose of helping less developed countries raise their living standards.

"Along with the International Monetary Fund (IMF), the Bank was founded in 1944 at a United Nations Monetary and Financial Conference of 44 governments at Bretton Woods, New Hampshire, USA. It began operations in June 1946. Membership in the Bank is open to all members of the IMF, and by June 30, 1977, 129 countries had joined. The Bank is owned and controlled by its member governments....

"The Bank's charter spells out certain basic rules that govern its operations. It must lend only for productive purposes, and pay due regard to the prospects of repayment. Each loan must be guaranteed by the government concerned. Except in 'special circumstances,' loans must be for specific projects. The Bank must assure itself that the necessary funds are unavailable from other sources on reasonable terms. The use of loans cannot be restricted to purchases in any particular member country or countries. And the Bank's decisions to lend must be based only on economic considerations.

Reliance on Private Investors

"A unique feature of the Bank as an intergovernmental organization is the fact that it relies mainly on private investors for its financial resources. Most of the money it lends comes from the Bank's own borrowings in various capital markets.

Although a total of \$30,869 million of its authorized capital of \$41,016 million has been subscribed, members pay in only 10%. The remaining 90% serves as a guarantee of the Bank's debt. It can be used only if required to meet obligations to investors in Bank securities.

"Thus, investors who might otherwise never become involved in the financing of projects in developing countries are contributing to the economic growth of poor countries. The Bank has borrowed a cumulative total of \$29,515 million, of which \$18,478 million is outstanding in 17 different currencies.

Interest on Loans

"Since the Bank obtains most of its funds on commercial terms, it must charge its own borrowers a commensurate rate of interest. On average, Bank loans are repaid over about 20 years; the rate of interest, at 8.2% on June 30, 1977, is determined by a formula that provides for a positive spread of 0.5% between the Bank's own borrowing costs and the interest charged on its loans to member countries. Table 2 shows how Bank loans are used to help meet the needs of its developing member countries.

"Aside from borrowings, paid-in capital subscriptions, and charges on its loans, the Bank has two other principal sources of funds it can lend. Most important is the flow of repayments on previous loans. These have amounted to \$8,014 million. In addition, it often sells portions of its loans to other investors, chiefly commercial banks, and uses these funds to make additional loans. By this means, it has been able to raise \$2,742 million.

The Bank's Net Earnings

"The Bank earns a profit on its operations, but it has never paid a dividend, since all shareholders agree that earnings should be used to help developing countries. Part of the Bank's net earnings has been placed in reserves which strengthen its ability to borrow. Most of its reserves are available for lending. Beginning in 1964, those earnings not placed in reserves have been given, each year, to IDA to help increase its ability to assist the poorest countries.

The International Development Association

"The need for lending to many poor countries on much easier terms than the Bank alone could give became apparent during the 1950s. The International Development Association (IDA) was, therefore, established in 1960 to help meet this need. It was made an affiliate of the Bank, to be administered in accordance with the Bank's own standards of efficiency.

"Nearly all IDA 'credits,' as they are called to distinguish them from Bank 'loans,' have been for a period of 50 years, without interest, except for a small

charge to cover administrative costs. Repayment of principal does not begin until after a 10-year grace period.

Source of IDA Resources

"The bulk of IDA resources has come from three sources. They are:

"1. Transfers from the Bank's net earnings – which have amounted to \$1,125 million as of June 30, 1977. Such transfers began in 1964; they have amounted to almost half of total net earnings since that time.

"2. Capital subscribed in convertible currencies by the members (all members of the Bank are eligible for IDA membership) of the Association: \$1,052 million. (Membership in IDA, as of the end of fiscal 1977, stood at 117.)

"3. Contributions from the Association's richer members. IDA resources were replenished through such negotiated contributions four times through June 30, 1977. Funds from these replenishments have totaled \$8,784 million. A fifth replenishment was agreed to in March 1977. For this replenishment, covering the period July 1, 1977 to June 30, 1980, 26 donor countries pledged to increase IDA's resources by some \$7,638 million.

"IDA resources to the poorer developing countries increased two and a half times in the five-year period, fiscal 1973-77, over the previous quinquennium. In each of the last six fiscal years, at least \$1,000 million has been committed.

"IDA resources are carefully rationed for use in the poorer countries. There are four main criteria that a country must meet in order to borrow from IDA:

"1. It must be very poor. The 'poverty ceiling' varies from time to time, depending on circumstances; it is now roughly \$520 a year of income per capita (in 1975 dollars).

"2. It must have sufficient economic, financial, and political stability to warrant long-term development lending.

"3. It must have an unusually difficult balance of payments problem, and little prospect of earning enough foreign exchange to justify borrowing all it needs on conventional terms.

"4. It must have a genuine commitment to development as reflected in its policies.

"More than 50 countries are eligible under the first criterion. They include more than four-fifths of the population of the 100 countries that are current borrowers from the Bank, IDA, or both.

"Seventeen of the poorest have borrowed only IDA resources. A 'blend' of Bank loans and IDA credits has been provided to another 50.

"Without funds on IDA terms, any significant help to the group of 17 very poor countries might well have been impossible. Without the ability to reduce the average debt burden by combining its loans with a rising volume of IDA credits, the Bank could not have increased its own support to the 50 'blend' countries to the degree it has.

"Thus the scope and flexibility of the Bank's help to the poorest of the poor depend upon the volume of IDA resources. This is determined chiefly by the level of contributions agreed to from time to time by IDA's wealthier member countries.

Operating Methods of the World Bank

"Whether large or small, every project financed by the Bank is considered in light of a country's total needs, capabilities, and policies. This is essential from the point of view of the Bank to ensure the most efficient use of its own resources. It is even more important to the people of the borrowing country, whose hope for a better standard of living depends upon the efficient mobilization and allocation of all resources available.

The Country Economic Report

"The first step in response to a country's request for assistance, therefore, is to prepare a comprehensive study of its economy. The resulting 'country economic report' is used by both the government and the Bank, and is kept up-to-date. It provides a basis for the Bank's own decisions on both financial and technical assistance. It often serves, also, as a planning tool for the government, and as a basic document for the use of other national and international lending agencies.

"The report describes and analyzes the entire economy and the country's development policies, organization, and principal problems. On the basis of objective analysis, it outlines a general order of development priorities among the various sectors. Whenever necessary, the country study is supplemented by more detailed analyses of individual sectors and relationships between them, which help to throw light on the relative importance of alternative projects in achieving the country's development goals.

"Chiefly on the basis of the economic report, and after consultation with the government, a program of Bank operations in the country is drawn up for a five-year period. This is reviewed and revised annually. It takes into account the likely availability of other external finance, as well as the country's own resources. The program provides a framework for concrete proposals for action to help the country carry out an agreed strategy of development. Each individual project is then considered within this framework.

Request for Funding

"There is no 'application form' for bank financing. Sometimes a formal request is made by letter, perhaps to the President of the Bank. Sometimes Bank staff members or missions identify specific project possibilities, discuss them with the government and, in some cases, help with the detailed work required to describe and document them. More often, project proposals arise out of the joint efforts of government and Bank staff members in their search for solutions to common problems. No matter how a proposal originates, however, the project is subjected to careful analysis, and a detailed agreement is worked out with the borrower before a loan or credit is approved.

"Assume, for example, that technical staffs of the government and the Bank agree that improvements in the road system are a priority need for attainment of the country's development goals. Often, in such cases, the Bank will recommend that consulting engineers be hired to draw up detailed plans. After this preparatory work is completed, the Bank will send a staff mission to make a thorough appraisal of all aspects of the project.

"When agreement is reached on details of the proposed project and on financing requirements, a formal loan or credit agreement is negotiated. If this is satisfactory, the President presents the proposal to the Executive Directors, who represent all member countries, for their approval.

Approval of Loans

"The approval of a loan does not end the Bank's involvement. In most cases, the borrower seeks bids, on the basis of international competition, for the goods and services required, and the borrower repays in the currency used by the Bank. The Bank releases money only as needed to meet verified expenditures on the project. Goods and services paid for by Bank loans or IDA credits may be obtained from any member country or Switzerland. The Bank pays in whatever currency is required, and the borrower repays in the currency used by the Bank.

Bank Involvement with LDCs

"Bank involvement continues throughout the life of the project. The borrower provides periodic progress reports, and Bank staff members visit the site from time to time, helping to anticipate and overcome difficulties and to ensure that the project's intended benefits to the country are realized. This close supervision is facilitated by the fact that the borrowing country is a part owner of the Bank and shares in the control of its policies and operations. As a cooperative multinational institution, the object of the Bank is to see that each project is carried out at the least possible cost and that it makes its full contribution to the country's development....

Technical Assistance of the World Bank

"Since the earliest days, technical assistance has been an integral part of the Bank's work, but its importance has increased enormously:

"It is possible to measure a few types of technical assistance in ordinary terms. For example, in loans and credits extended in fiscal 1977, \$63 million was included to pay for feasibility studies, \$77 million for the services of foreign experts and consultants, and \$50 million to send personnel overseas for training. Items such as these, however, are merely the most visible parts of a total effort which may be more important to developing countries than the money the Bank provides.

"Technical assistance is sometimes given in response to requests for advice on questions of general policy, planning, or administration, or for help in meeting specific needs – the identification and preparation of projects, for example, the recruitment of key personnel, the mobilization of domestic capital, or perhaps the improvement of statistical services.

"Most needs for technical assistance become apparent in discussions between staff members of governments and of the Bank. They often arise in connection with country economic and sector studies, and in the course of project appraisals and supervision. Whenever the need for improvement is disclosed in these discussions or studies, and help is desired to carry it out, the Bank will provide it, organize it, or help to find it.

Feasibility Studies Prepared by World Bank

"The Bank provides a large amount of technical assistance by administering feasibility studies supported by the United Nations Development Programme (UNDP), many of which lead to projects financed by the Bank and IDA.

"The Bank maintains a staff college, the Economic Development Institute (EDI), to train officials of developing countries in the techniques of development. About 5,000 have attended EDI courses in Washington and overseas. In fiscal 1977, 290 Fellows took part in 11 courses conducted at headquarters in Washington, and 621 participated in 24 courses sponsored or supported by the Institute in other parts of the world.

"In addition, the Bank conducts a large, continuing program of research – both basic and applied – in virtually every aspect of development with which its members are concerned. At present, this program consists of more than 100 studies. Subjects include economic planning, agriculture and rural development, income distribution, international trade and finance, industry, labor-capital substitution, unemployment, urbanization, regional development, public utilities, transportation, financial institutions, and population and human resources.

Identification of Projects Which Need Financial Support

"The Bank maintains Regional Missions in Eastern Africa with headquarters in Nairobi, Kenya; in Western Africa with headquarters in Abidjan, Ivory Coast; and in Thailand, with headquarters in Bangkok. Their main purpose is to assist the countries in those respective areas in the identification and preparation of projects for financing. The Bank also maintains a Resident Staff in Jakarta, Indonesia, to assist the Government in formulating development projects and also to provide technical assistance in economic and financial matters.

"In addition, the Bank maintains missions in Afghanistan, Bangladesh, Bolivia, Cameroon, Colombia, Ethiopia, Ghana, India, Mali, Nepal, Nigeria, Pakistan, Saudi Arabia, Somalia, Sudan, Tanzania, Upper Volta, Venezuela and Saudi Arabia, the major purpose of each is to give special assistance to the governments in relation to Bank-assisted projects.

International Cooperation and Coordination at the World Bank

"While the Bank is large in relative terms, it is only one of many institutions – national and international, public and private – that provide financial and technical assistance to developing countries. In the public sphere alone, a dozen or more international institutions and 25 or 30 national agencies are involved in one way or another.

"With such a multiplicity of donors, lenders, and providers of technical assistance, close cooperation and some degree of coordination are essential. Methods employed by the Bank to achieve this vary widely, depending, among other factors, on the nature and scope of each institution's program. Some involve purely ad hoc staff cooperation on particular problems as they arise. Some are more highly structured, but still informal. Others entail formal, written agreements.

Staff Support for the World Bank

"Under special cooperative agreements, four of the United Nations' specialized agencies provide staff support for Bank operations in their fields of interest. These are the Food and Agriculture Organization of the United Nations (FAO), the United Nations Educational, Scientific and Cultural Organization (UNESCO), the World Health Organization (WHO), and the United Nations Industrial Development Organization (UNIDO).

"The World Bank has almost continuous contact, and close working relations, with other UN agencies and commissions, regional development banks, the Permanent Executive Committee of the Inter-American Economic and Social Council (CEP-CIES), the Organization for Economic Co-operation and Development (OECD), regional organizations such as the European Communities,

and most of the national agencies that provide development finance and technical assistance.

Coordination of Financial Assistance

"The Bank plays a leading role in efforts to coordinate assistance from a variety of sources to individual countries. For this purpose, it has organized and serves as chairman of 20 coordinating groups of national and international organizations. It is also an active member of similar groups under other auspices. For those it sponsors, it provides the secretariat. For all such groups, the Bank's relevant country studies and analyses of need serve as part of the basic documentation.

"The coordination of assistance need not be tied to the financing of individual development projects, however. One example of a nonproject activity in which the Bank, along with many others, is involved, is the program for the control of onchocerciasis (riverblindness) in West Africa's Volta River basin. The program is jointly sponsored by the Bank, WHO, FAO, and UNDP. While WHO is the executing agency, the Bank has assumed responsibility for mobilizing the external finances that are needed to cover the costs, estimated at \$57 million, for the initial six-year (1974-79) phase of the program that will affect seven countries in the region. Ten donor governments, as well as the African Development Bank and the World Bank, currently contribute to the fund.

"In another area, the Bank is co-sponsor (with FA and UNDP) of the Consultative Group on International Agricultural Research (CGIAR). The Bank serves as Chairman of the Group which, since 1971, has undertaken to provide financial support to international agricultural research centers and programs around the world. A total of 12 centers and programs are currently supported by CGIAR, and their work embraces all the major food crops, animals, and ecological zones to be found in the developing world. Membership in the Group includes 36 governments, international organizations, and private foundations. Twenty-nine members are donors.

Ownership and Control of the World Bank

"Member governments own and control the Bank. Every member of the Bank subscribes to shares in an amount based roughly on its relative economic strength. Each has 250 votes plus one for each share of stock it holds, thus increasing the relative voting powers of the poorer countries. For example, Chad subscribes \$10 million, or 0.04% of the total, while its voting power is 0.12%. The United States, the Bank's largest shareholder, which provides 25.30% of subscription capital, has 22.55% of the voting power.

Voting Power in the IDA

"Voting power in IDA is similarly structured but weighted more heavily in favor of the poorer countries.

"Control in both institutions is exercised through a Board of Governors, consisting of one for each member, and 20 full-time Executive Directors. The Governors meet once a year to review operations and basic policies. Most functions of the Governors are delegated to the Executive Directors, who normally meet at least once a week at the Bank's headquarters in Washington. Five of the Executive Directors are appointed by the largest stockholders (United States, United Kingdom, France, Germany, and Japan) while 15 are selected by groups of members and represent countries that elect them. All votes of an elected Executive Director are cast as a unit. In actual practice, most decisions are taken on the basis of a clear consensus, rather than by formal vote.

Role of Executive Directors

"The Executive Directors approve all Bank loans and IDA credits and are responsible for all matters of policy except on basic questions reserved to the Board of Governors. They meet under the chairmanship of the President, whom they select, and who is responsible for the conduct of the Bank's business and for its organization and staff. Robert S. McNamara was elected to his third five-year term as President of the Bank and IDA in April 1977.

"The Bank employs about 5,000 people of more than 100 nationalities. (Official document. *The World Bank International Bank for Reconstruction and Development*, 1818 H Street, N.W., Washington, D.C. 20433, no date, pp. 1-11.)

Part III – The Philosophy of Former World Bank President Robert S. McNamara

The IBRD and its policies are socialistic in nature. This is vividly revealed in the writings of the recent president of the World Bank, Robert S. McNamara. McNamara served as president of the bank from 1968-1981. In 1981, John L. Maddux, a close associate, prepared a monograph entitled, "The Development Philosophy of Robert S. McNamara." In a section entitled, "The Evolution of McNamara's Development Thinking," Maddux states:

The Evolution of McNamara's Development Thinking

1968:

"When Robert McNamara assumed the presidency of the World Bank in the spring of 1968 there was a sense of weariness in the industrialized nations over the whole concept of foreign economic assistance. The discouragement over

development was based on two assumptions: first, that the wealthy nations could no longer afford to provide financial help in sufficient amounts to the developing countries; and second, that even if they could afford it, it would be unwise to make it available since the record of past foreign assistance was characterized by waste, incompetence, and failure.

"McNamara was convinced that neither of these assumptions was in fact true, but he recognized that they were widely believed, and that it was the belief itself that was seriously demoralizing the international development effort. He was determined to counter this trend through the instrumentality of the World Bank.

A High Level Meeting of International Financiers

"In the fall he addressed his first Annual Meeting of the Bank's Board of Governors. These week-long events, held jointly each year in October with the International Monetary Fund (IMF), gather together an invited audience of some five or six thousand high-level participants. They include the senior financial and monetary officials, and their official delegations, of all the member countries of both institutions. Typically, a Governor of the Bank or the Fund in a given member country is the Finance Minister, or the Governor of the Central Bank, or a cabinet official of similar rank.

A Select Group Attends Meetings of the World Bank

"Leading commercial bankers from around the globe are invited to the meetings as observers, as are the representatives of international organizations and of the worldwide financial and economic press. It is the most important and influential meeting of financial officials held anywhere in a given year. As the headquarters of both the World Bank and the International Monetary Fund are located in Washington, the joint annual meetings are generally convened there. Each third year, however, the meeting is held in some member country abroad.

The Newly Appointed President of the World Bank Announced a Bold New Plan

"The expectation of this global audience to hear the newly appointed president of the World Bank was high on September 30, 1968. They were not to be disappointed.

"McNamara outlined an immensely bold five-year program. Declaring that he refused to accept the view that adequate resources were not available to assist the developing countries, he proposed that the Bank should double its overall lending in the next five years, as compared to the past five, and that this would mean that it would lend in the 1969-73 period alone very nearly as much as it had lent in its entire previous 22-year history.

"He had arrived at that target, he explained, by surveying the five-year period ahead, drawing up a provisional lending plan for each of the Bank's developing member countries, and posing the question: What could the Bank invest in each of them if there were no shortage of funds, and if the only limit on the Bank's activities were the capacity of these individual countries to use the Bank's assistance effectively, and to repay the loans on the terms on which they were lent?"

An Expanding Role for the World Bank

"To double its lending, the Bank would have to increase substantially its borrowing. Leaving aside for the moment the issue of soft loan money for the poorest countries that is raised by the Bank through government contributions from its industrialized member nations, McNamara announced that he saw no difficulty in the Bank's expanding its bond issues in capital markets of the world.

"It was the Bank's job, he said, to look at world money markets as a whole, and see where there were surpluses and reserves that could be tapped. As a result of an intensified borrowing program – in the Middle East as well as in more conventional markets such as Germany and the United States – he announced that in the past 90 days the Bank had raised more funds by borrowing than in the whole of any single calendar year in its history. Mr. McNamara was clearly off to a very fast start.

World Bank to Double Its Operations

"It was not merely that the Bank would double its overall operations, he added. It would also shift its lending emphasis both geographically and sectorally. In the next five years lending to Latin America would more than double, and it would triple to Africa. Lending to Indonesia – where the Bank had never lent before – had begun, and a permanent resident mission had already been established.

"Ironically, many of the Bank's poorest and least developed member countries had in the past received the least assistance – ten of them had received nothing at all – primarily because of their inability to prepare projects for consideration. They would get special assistance in doing this, he said, and lending to them would expand.

A Major Shift in Emphasis

"But it was his proposed sectoral shifts in emphasis that most surprised many listening to McNamara. World Bank lending for education would triple. For agriculture it would quadruple. And while some traditionally conservative bond underwriters in the audience were digesting those unexpected prospects, the new president saved his biggest surprise for last.

McNamara Calls for Control of Population Growth

"Now came the announcement that proved to be the opening salvo in a campaign that was to preoccupy McNamara for many years to come. It sounds tame enough today. In 1968, in the World Bank Annual Meeting, it was very big news:

"This leads me,' he said, 'to yet another area where the Bank needs to take new initiatives – the control of population growth. This is a thorny subject which it would be very much more convenient to leave alone. But I cannot, because the World Bank is concerned above all with economic development, and the rapid growth of population is one of the greatest barriers to economic growth and social well-being of our member states.'

The Reaction to Calls for Population Control

"The issue would indeed prove to be thorny. Some observers felt it was at best impolitic, if not actually improper, for the Bank to get into the matter at all. Others felt that the issue in itself was important, but that it was simply not 'bankable': How could a bank prudently lend money for it? Was it really a fundable development sector at all? Still others feared the critical reaction that might develop in Latin America or other areas of the world where religious and cultural traditions might be offended.

"None of this nervousness deterred McNamara. Less than three weeks later he made a speech in Buenos Aires to the Inter-American Press Association, and spent part of it applying what he had said in Washington to Latin America in particular. But there was an even more unexpected event to come.

1969:

"Perhaps the most famous Catholic institution of higher-learning in the United States is Notre Dame University, and in late 1968 its distinguished president, Father Theodore Hesburgh, invited McNamara to come to the university the following May, receive an honorary degree, and deliver an address at the dedication of a new graduate business and public administration facility on the campus.

Excessive Population Growth

"McNamara accepted the invitation, and began in-depth preparations for a major full-length address on what he was to term 'the most delicate and difficult issue of our era – perhaps of any era in history': the problem of excessive population growth.

"It was to become perhaps the most widely read speech McNamara ever delivered while president of the World Bank. The subsequent requests for it were so heavy that it had repeatedly to be reprinted.

A Global Family Planning Program

"McNamara examined in persuasive and eloquent terms the complexities of the subject, and stressed that a family planning effort 'on a humane but massive scale' was necessary to avoid catastrophic consequences. While acknowledging that there were certain 'precise and painful dilemmas' in the issue, he dissected with his customary logic a whole series of 'myths that obscure the essentials of the problem' and inhibit effective action: the myth that 'more people means more wealth'; that 'countries with large tracts of uninhabited open land have no need to worry about birth rates'; that 'the white western world's assistance in family planning efforts among the non-white nations of the developing world is a surreptitious plot to keep the whites in racial ascendancy'; and finally the myth that 'the time for action is past, and that sweeping famine is inevitable.'

"McNamara made his points at Notre Dame with both understanding and sensitivity. 'You, and the Roman Catholic Church at large, are completely dedicated to the goal of development,' he reminded his audience, citing Vatican and papal documents that call for the solution to the population problem as it relates to development. He spoke of 'the fatherly and compassionate Pontiff who stands at your helm' and added that 'such controversy as remains in this matter is merely about the means, not at all about the end.'

"The faculty and students of Notre Dame reacted to the address – as most of the world did – with prolonged applause. Father Hesburgh called it a 'thorough, reasoned and nuanced speech, on the serious problem for which he has great responsibility.' McNamara was to continue to take that responsibility seriously throughout his term of office, and was to deal with the issue in many of his public statements.

1970:

"In an address to a conference on development, held at Columbia University in early 1970, McNamara made what was to prove to be a prescient prediction: 'The outlook for the Seventies,' he said, 'is that the fault line along which shocks to world stability travel will shift from an East-West axis to a North-South axis, and the shocks themselves will be significantly less military and substantially more political, social, and economic in character.'

Relevant Development Indicators

"Further, he introduced for the first time a distinction that he was to develop significantly over the oncoming decade. 'In setting the objectives, planning the

programs, and measuring the progress of development in the Seventies, we must look to more than gross measures of economic growth. What we require are relevant 'development indicators' that go beyond the measure of growth in total output and provide practical yardsticks of change in the other economic, social, and moral dimensions of the modernizing process.'

"This was an early indication of what was to become a very important McNamara theme throughout the years. To limit our attention to expanding gross national product (GNP), even though it be from 5% per year to 6 or 7%, he cautioned, 'can only lead to greater political, social, and economic disequilibrium. However important an increase in GNP may be as a necessary condition of development, it is not a sufficient condition.'

"He concluded the passage with an even stronger warning: 'If we achieve the 'quantity' goals, and neglect the 'quality' goals of development, we will have failed. It is as simple as that. We will have failed.'

1971:

"At the Bank's Annual Meeting in 1971 – as he had in 1970 – McNamara returned once more to the population issue. He pointed out that the development programs throughout the developing world had not yet faced up to the adjustments that the inevitable consequences of continuing population growth require. Two of these consequences would be greater malnutrition and growing unemployment.

An Analysis of the Malnutrition Problem

"McNamara began his analysis of the malnutrition problem almost like a professor standing at the head of his class:

"The argument I shall make is that: malnutrition is widespread; it is the major cause of high mortality among young children; it limits the physical – and often the mental – growth of hundreds of millions of those who survive: it reduces their productivity as adults; and it is therefore a major barrier to human development.'

"Some of the president's friends had joked with him in private that instead of a rostrum and a microphone at the Annual Meeting, he really ought to have a blackboard and a pointer. McNamara took the joshing well, but he was adamant about the format of his public speeches. The line of argument had to be rigorously clear and logical. The subject matter – and its consequences – were far too important, he said, for there to be any risk of imprecision or misunderstanding.

1972:

"McNamara delivered three major addresses in 1972, each of them important in the evolution of his development thinking. The first was to UNCTAD III – the

United Nations Conference on Trade and Development – in Santiago in April. 'What I have to say,' he began, 'will be brief and candid.' It was.

The State of Development in the LDCs

"My view is this: The state of development in most of the developing world today is unacceptable – and growing more so.'

"It is unacceptable,' McNamara went sternly on, 'not because there hasn't been progress in the past 20 years – and particularly in the decade of the Sixties – but because development programs have been directed largely at gross economic goals, and have failed to insure that all nations, and all groups within nations, have shared equitably in the economic advance.'

"But though McNamara intended to be unmistakably blunt about the facts about the case – and was – he did not want to see the conference dissolve into useless wrangling over culpability. He put the matter directly:

Global Solutions for Global Problems

"Finally, if the state of development today is unacceptable – and it is – we must not waste time looking for villains in the piece, or even worse, waste energy in fruitless confrontation between rich nations and poor nations. Rather, the entire international development community – all of us – must promptly move forward with practical measures which are conceptually sound, financially feasible, and which can command the requisite public support. I hope to suggest some of these today.'

"And suggest he did. He demonstrated with icy logic that such evidence as was available suggested that even the developing countries which had registered significant gains in GNP growth were plagued with severely skewed income distribution patterns. 'What can be done about it?' he asked. 'What must be done about it,' he answered, 'is to reduce the crushing disparities of opportunity.'

A Call for Redistribution of Income

"He was ready with realistic proposals.

"To begin with, there must be more equitable and comprehensive tax measures; land reform laws; tenancy security policies; and, above all, concrete programs to increase the productivity of small farmers. And not just programs and measures languishing in legislative debate and delay, or lost in legal complexities so hedged about with exceptions that they end by being more rhetoric than reality. What are required are feasible fiscal, agrarian, and educational reform measures that can be fully and fairly enforced. What is needed most of all is a determination to move against the inequities of income distribution.'

The Problems of Massive Poverty in LDCs

"Then came a McNamara comment that was to be widely quoted:

"There is no need to point out that this is politically difficult. Without question it is. But when the distribution of land, income and opportunity becomes distorted to the point of desperation, what political leaders must often weigh is the risk of unpopular but necessary social reform – against the risk of social rebellion. 'Too little too late' is history's most universal epitaph for political regimes which have lost their mandate to the demands of landless, jobless, disenfranchised and desperate men.'

"McNamara then went on to state a principle – for the first time in his public addresses – that was to become an increasingly familiar theme:

"What I am suggesting is that we should stop thinking of massive poverty in a developing country as simply a symptom of underdevelopment – and begin, rather, to think of it as a condition that must be attacked within the framework of the nation's overall program.'

"McNamara displayed his characteristically balanced view of the mutual responsibilities of both the developed and the developing countries:

A Call for Global Redistribution of Income

"Just as we must conclude that it is the responsibility of the political leaders of the developing nations to recognize the inequities that exist within their nations and to move to correct them, so we must likewise conclude that the wealthy nations of the world – possessing 25% of its people, but 80% of its wealth – should move now to provide the additional assistance, in the form of aid and trade, which the developing nations need to meet minimum national goals.'

"Our clear duty,' he added, 'for the remainder of this decade is to face up to mass poverty for what it really is, determine its dimensions, locate its whereabouts, set a limit beneath which we will not accept its continuance, and make our first priority a threshold of human dignity and decency which is achievable within a generation.'

Growing Environmental Concerns

"That,' he concluded, 'is how I – for one – view the development task. What we need most to do is to get on with it.'

"McNamara himself got on with it in another major address in June, this time in Stockholm at the United Nations Conference on the Human Environment. Again, he tried to cool down the confrontational atmosphere that was boiling up over the

environmental issue. The provocative volume, *The Limits to Growth*, had appeared earlier in the same year, and the thesis frightened many observers in the developing world who correctly feared that an overemphasis on the dangers of economic growth would severely penalize the poor.

"McNamara described the dilemma graphically.

"The achievement of a level of life in accord with fundamental human dignity for the world's two and three-quarter billion poor is simply not possible without the continued economic growth of the developing nations, and the developed nations as well. But economic growth on the pattern of the past – and most particularly that in the already highly industrialized wealthy nations – poses an undeniable threat to the environment and to the health of man'

"The question,' he insisted, 'is not whether the impact on the environment must be respected. It has to be. Nor – least of all – is it a question of whether these two considerations are interlocked. They are.'

"But he saw in the debate as it was then being argued a dangerous tendency to rush to premature conclusions. Mathematical modeling,' he said pointedly, 'is useful. But it is only as useful as the validity of its assumptions and the comprehensiveness of its inputs.'

The Risk of Overloading the Earth's Life Support Systems

"The manifest danger,' he warned, 'is to oversimplify. When that oversimplification suggest the imminent risk of overloading the planet's life-support systems, or exhausting its essential resources, the developing peoples of the world are suddenly faced with a fearsome prospect. On top of all their present disadvantages, are they now going to be asked to forego their efforts at development in the name of preserving the already disproportionate (and still rising) patterns of consumption of the rich?'

"The poor,' he added, 'are right to be indignant over such a prospect. But in my view it never need arise. It need never arise because there is no evidence that the economic growth – which the developing countries so desperately require – will necessarily involve an unacceptable burden either on their own or on anybody else's environment.'

The Interdependencies of the World

"After describing in detail the practical measures and safeguards the World bank had adopted to deal with the environmental issue in its day-to-day project operations, McNamara drew an important conclusion regarding the world's political will and social responsibility:

"Ecological considerations have made us all more aware of the interdependencies of our world. We have come to see our planet as 'spaceship earth.' But what we must not forget is that one-quarter of the passengers on that ship have luxurious first-class accommodations and the remaining three-quarters are traveling in steerage. That does not make for a happy ship – in space or anywhere else. All the less so when the steerage passengers realize that there are at hand the means to make the accommodations more reasonable for everyone.'

"We must realize, he said, 'that human degradation is the most dangerous pollutant there is.' And he concluded: 'In the end, it is respect for man – and his home – that brought us to this conference. When we leave, let us go with the conviction that respect can and must be translated into practical action. The leading edge of that action must be to protect man from the one hazard which can injure not only his habitat and his health – but his spirit as well. Cruel, senseless, curable poverty.'

The Anti-Poverty Theme

"The anti-poverty theme was growing stronger and stronger in all of McNamara's statements, and at the Bank's Annual Meeting that year he reinforced it even further.

"He began a series of intellectual dialogues with that speech on social equity and economic growth that was to continue for several years. Perhaps the key passage in the 1972 address to the Board of Governors was the following:

"The task, then, for the governments of the developing countries is to reorient their development policies in order to attack directly the personal poverty of the most deprived 40% of their populations. This the governments can do without abandoning their goals of vigorous overall economic growth. But they must be prepared to give greater priority to establishing growth targets in terms of essential human needs: in terms of nutrition, housing, health, literacy, and employment – even if it be at the cost of some reduction in the pace of advance in certain narrow and highly privileged sectors whose benefits accrue to the few.

"Such a reorientation of social and economic policy is primarily a political task, and the developing countries must decide for themselves if they wish to undertake it. It will manifestly require immense resolve and courage.

"The task of political leadership in the wealthy world is to match that resolve and courage with a greater commitment to equity between their own affluent nations and the grossly disadvantaged developing nations.'

The Basic Human Needs Approach to Development

"This is a seminal passage because it reveals McNamara as an intellectual precursor of what later became known throughout the international community as the 'basic human needs' approach to development. As that movement grew in later years he did not necessarily identify himself with each and every elaboration of the original concept – as in the environmental debate, there was a tendency of some enthusiasts to oversimplify the issue – but there is no doubt that McNamara was one of the intellectual founders of this whole 'human needs' train of development thinking.

"With this same address McNamara began a practice that was to continue throughout all his remaining Annual Meeting speeches. He added at the end of the printed version of his text a revealing statistical table that displayed what the individual developed countries were contributing in official development assistance (ODA, i.e., financial assistance to developing countries and multilateral institutions on concessional terms), measured as a percentage of their gross national product. Past, present, and projected performance were all indicated, country by country, and year by year.

"The table created something of a stir. It was a little like the pastor of the parish church publishing for all to see not merely what each parishioner had been putting into the collection basket, measured against his total wealth, but also just how generous – or how stingy – he planned to be in the future.

"There were the predictable complaints from governments, particularly about the projections. But the United Nations target for the Second Development Decade (the 1970s) was that the developed countries should raise their ODA to .7% of their GNPs by 1975, and McNamara was determined to publish the boxscore.

1973:

"The Bank's Annual Meeting was held in Kenya in 1973, and what came to be known as the 'Nairobi address' ranks as one of McNamara's most influential policy statements. As a guide to his views on poverty, it is particularly important.

"In addition, it was a final report on his first five years in office. The Five-Year Program had now been completed, and McNamara detailed the results: not only had the overall goal of doubling the World Bank's operations in the fiscal period 1969-73, as compared with the previous five years, been achieved, but every subsidiary target that he had announced in 1968 had also been reached or surpassed.

A Second Five-Year Program Outlined

"He outlined a Second Five-Year Program for the period FY1974-78 in which lending, in 1973 dollars, was expected to total \$22 billion for nearly 1,000 projects. 'It will represent,' he said, 'the largest program of technical and financial assistance to developing countries ever undertaken by a single agency.'

The Nation of Absolute Poverty

"It is in this address that McNamara introduced a term – and a concept – that was to become part of the intellectual landscape throughout the international development community: the notion of 'absolute poverty.' The passage in which it first appeared is significant. McNamara examined the view of those in the developed countries who said that no more assistance could be spared for the developing countries:

"'But I believe,' he said, 'that such critics of additional assistance to the poorer nations, when citing the needs of their own cities and country side, fail to distinguish between two kinds of poverty: what might be termed relative poverty and absolute poverty.'

"'Relative poverty means simply that some countries are less affluent than other countries, or that some citizens of a given country have less personal abundance than their neighbors. That has always been the case, and granted the realities of differences between regions and between individuals, will continue to be the case.'

"'But absolute poverty is a condition of life so degraded by disease, illiteracy, malnutrition and squalor as to deny its victims basic human necessities.' It is 'a condition of life so limited as to prevent realization of the potential of the genes with which one is born; a condition of life so degrading as to insult human dignity – and yet a condition of life so common as to be the lot of some 40% of the peoples of the developing countries.'

The Role of the World Bank in Eliminating Poverty

"McNamara then asked his audience bluntly, 'And are not we who tolerate such poverty, when it is within our power to reduce the number afflicted by it, failing to fulfill the fundamental obligations accepted by civilized men since the beginning of time? I do not wish you to interpret my remarks as those of a zealot. But you have hired me to examine the problems of the developing world and to report to you the facts. These are the facts.'

"It was a moment of typical McNamara candor, and there were to e many others in the address.

"In the remaining section of this statement,' he announced, 'I would like to discuss the nature of this poverty problem, consider what means are at hand to alleviate it, and indicate what part the Bank can play.' He spent the next 18 pages of the speech doing that in closely reasoned detail.

"The basic problem of poverty and growth in the developing world,' he stressed, 'can be stated very simply. The growth is not equitably reaching the poor. And the poor are not significantly contributing to the growth.'

"McNamara pointed out that the vast bulk of the poor in the developing world lived in the rural areas, and that the poverty problem there revolved primarily around the low productivity of the millions of small subsistence farms. While admitting that neither the Bank, nor anyone else, had very clear answers on how to bring improved technology and other inputs to over 100 million small farmers, he was determined to make a beginning.

The Essential Elements of Any Comprehensive Strategy

"The essential elements of any comprehensive strategy to increase the productivity of smallholder agriculture, he said, must include the following: acceleration in the rate of land and tenancy reform; better access to credit; assured availability of water; expanded extension facilities backed by intensified agricultural research; greater access to public services; and, most critical of all, 'new forms of rural institutions and organizations that will give as much attention to promoting the inherent potential and productivity of the poor as is generally given to protecting the power of the privileged.'

"The Bank, he said, would make the increased productivity of the small, subsistence farmer a major goal of its expanded activity in the years ahead, though he cautioned that no amount of outside assistance could substitute for the resolve of the developing countries themselves to take on the task. 'It will call for immense courage,' he note, 'for political risk is involved. The politically privileged among the landed elite are rarely enthusiastic over the steps necessary to advance rural development.

Need for Greater Western Assistance

"But,' he concluded, 'if the governments of the developing world – who must measure the risks of reform against the risks of revolution – are prepared to exercise the requisite political will to assault the problem of poverty in the countryside, then the governments of the wealthy nations must display equal courage. They must be prepared to help them by removing discriminatory trade barriers and by substantially expanding Official Development Assistance.

"'What is at stake in these decisions,' he reminded his World Bank audience, 'is the fundamental decency of the lives of 40% of the people in the 100 developing nations which are members of this institution.'

1974:

"In late 1973, and into 1974 the shock of the surge in oil prices, together with a rising commodity boom, and overall growth in inflation, severely affected the poorest developing nations' terms of trade. 'In the twelve months since our meeting in Nairobi,' McNamara began in his Annual Meeting speech that year, 'the world scene has grown increasingly turbulent. The series of changes which have occurred have been of a magnitude previously associated only with major wars and depressions.'

"Any single one of the events, he said, would have had a serious impact on the developing nations. In combination, the effect on some of them had been near disaster.

LDCs Caught in a Web of External Economic Forces

"The Bank's poorest developing member countries, he reminded his listeners, which are 'relatively disadvantaged in natural resources, without significant foreign exchange reserves, and already suffering from serious internal deprivations – now find themselves caught in a web of external economic forces largely beyond their control. They can do little to influence the current disequilibrium, nor did they precipitate its underlying causes. And yet, they have become the principal victims, and are faced with the severest penalties.

"'These countries contain a billion individuals. Whatever the problems and preoccupations of the rest of us may be, we simply cannot turn our backs on half the total population this institution serves. The real issue, then, is whether we, in this forum, fully understand what is happening to the poorest countries – and having understood it, are ready to do what is necessary to assist them.'

The Need to Mobilize Financial Assistance for the LDCs

"Could such assistance be mobilized? McNamara thought it could and must be.

"He outlined his argument in a passage that was to be often quoted:

"'The developed nations, understandably preoccupied with controlling inflation, and searching for structural solutions to their liquidity imbalances, will be tempted to conclude that until these problems are resolved, aid considerations must simply be put aside.

"But aid is not a luxury – something affordable when times are easy, and superfluous when times become temporarily troublesome. It is precisely the opposite. Aid is a continuing social and moral responsibility, and its need now is greater than ever.

"It is true that the affluent nations in the face of shortages and inflation, and in order to continue to expand aid, may have to accept for the time being some selective reduction in their already immensely high standard of living. If they have to, they can absorb such inconveniences.

"But for the poorest countries such a downward adjustment is a very different matter. For them downward does not mean inconvenience, but appalling deprivation. And for millions of individuals in these countries downward means simply the risk of death.'

1975:

"The critical need for capital by the oil-importing developing countries continued to receive McNamara's attention in his 1975 Annual Meeting address. He warned that the persistent worldwide inflation, the high cost of petroleum, the deterioration in many of their terms of trade, and the prolonged recession in the developed nations all combined to confront them, just then, with an array of unanticipated obstacles to achieving even minimal development objectives in the remaining years of the decade.

The Need to Develop a Global Strategy for Dealing with Poverty

"But despite all of this,' McNamara added, after proposing a number of actions to reduce the foreign exchange crisis, 'despite the urgency for all of us to focus our attention on this emergency, and to take every step we can to try to deal with it, we cannot allow this to diminish our concern with the central issue of development which underlies the present situation: the necessity of creating an effective strategy to deal with the fundamental problem of poverty itself.'

"Continuing the discussion with his readers on the 'critical relationship of poverty and economic growth' that he had began three years before. McNamara emphasized again that 'analysis of income data makes it clear that policies aimed at diminishing income inequalities through direct redistribution of wealth will not be sufficient to end indigence. that is not to say that adjustments in this direction are not desirable on the grounds of equity, but no degree of egalitarianism alone will solve the root problem of poverty. What is required are policies that will enhance the productivity of the poor.'

An Expanded Lending Program

"After reviewing the commitments the Bank had made in his Nairobi address two years before to wage an assault on poverty in the rural areas 'because the overwhelming majority of the absolute poor are there,' McNamara pointed out: 'But we have not merely elaborated policy. I We have moved ahead with an expanded lending program in rural development and we now lend more in this sector than in any other. This is a clear change in emphasis: 50% of all rural-development lending in the history of the Bank has occurred in the last year. We expect to commit \$7 billion more in this field over the next five years.'

"But though the countryside was where most of the absolute poor were, 'they live in the cities of the developing world as well. Roughly 200 million are there now. More are coming, and coming soon,' he noted. He then devoted the next 13 pages of his text to a detailed analysis of urban poverty, and what could be done about it.

The Dangers to Governments Who Fail to Take Responsible Action

"Graphically describing the life of the urban poor, and branding it as 'unspeakably grim,' McNamara underlined the dangers to governments that failed to take responsible action. 'Historically,' he reminded them, 'violence and civil upheaval are more common in cities than in the countryside. Frustrations that fester among the urban poor readily are readily exploited by political extremists. If cities do not begin to deal more constructively with poverty, poverty may well begin to deal more destructively with cities.'

The Problems of Housing in LDCs

"In a trenchant passage, McNamara described the problem of housing:

"The deprivation suffered by the poor is nowhere more visible than in the matter of housing. Even the most hardened and unsentimental observer from the developed world is shocked by the squalid slums and ramshackle shantytowns that ring the periphery of every major city. The favelas, the bustees, the bidonvilles have become almost the central symbol of the poverty that pervades two-thirds of the globe. It is the image that is seared into the memory of every visitor.

"But there is one thing worse than living in a slum or a squatter settlement – and that is having one's slum or settlement bulldozed away by a government which has no shelter of any sort whatever to offer in its place. When that happens – and it happens often – there remains only the pavement itself, or some rocky hillside or parched plain, where the poor can once again begin to build out of packing crates or signboards and scraps of sheetmetal and cardboard a tiny hovel in which to house their families.

"Squatter settlements by definition – and by city ordinance – are illegal. Even the word squatter itself is vaguely obscene, as if somehow being penniless, landless, and homeless were deliberate sins against the canons of proper etiquette. But it is not squatters that are obscene. It is the economic circumstances that make squatter settlements necessary that are obscene.'

A Call for Greater Government Intervention

"McNamara indicated that though the dynamics of poverty in the cities differ substantially from those in the countryside, the key to dealing with them both is fundamentally the same. 'What is required,' he said, 'are policies and actions that will assist the poor to increase their productivity. Primarily this calls for measures that will remove barriers to their earning opportunities, and improve their access to public services.'

"Urging governments to increase earning opportunities for the poor in the informal sector, create more jobs in the modern sector, provide more equitable access to public utilities, transport, education, and health services, and to establish realistic housing policies. McNamara warned that 'for the next decade or two – indeed for as far forward as anyone can realistically plan – the urban problem will be a poverty problem.'

A Number of Difficult Political Choices

"He added that any serious effort in solving the problems of urban development will clearly involve a number of sensitive and difficult political choices, and that those, of course, were for governments to make, not for the Bank. Moreover, the Bank's own lending could finance only a very small proportion of the necessary investments in productive facilities and supporting urban services.

"But he stressed: 'The Bank, can play a significant role in pointing out the extent to which governments' present policies, practices, and investment allocations are seriously biased against the poor. And the Bank can expand and redirect its own investments in urban areas to insure that they result in increased earning opportunities and more adequate services for the poor in both the modern and traditional sectors. This will be a major objective of our five-year program for the years FY1976-80.'

1976:

"In his Annual Meeting address in 1976 McNamara drew attention to the growing debate that was going on within various forums of the international development community over the issue of additional support from the developed nations to assist the developing countries achieve acceptable rates of growth.

The Call for Additional Financial Assistance from the West

"This debate had led to the Special Session of the General Assembly the year before in New York; to the formation of the Development Committee composed of Governors of the IMF and the World Bank; to the meeting of UNCTAD IV in Nairobi; and to the North-South Dialogue in Paris. And yet, after more than a year of intense debate, there had been no agreement on the level of additional assistance to be provided to the developing nations.

"In McNamara's view, the reason for the lack of agreement was that the discussions had focused far too much on details – commodity agreements, buffer stocks, and so forth – rather than on fundamentals.

The Need for a Global Compact

"He believed that what was needed was a 'basic understanding' among the parties as to the nature and magnitude of the problem; the action required to address it; the relative responsibilities of the parties for taking such action; and the costs and benefits to each of doing so.

"Such an understanding – a 'global compact' – would make clear in overall terms both the additional trade and aid support to be provided by the developed nations, and the policy reforms and structural changes to be undertaken by the developing nations. These should, he thought, have as one of their major objectives the meeting of the basic human needs of the absolute poor in both the poorest and the middle-income countries within a reasonable period of time, say by the end of the century.

Financial Assistance to be Provided by Developed Nations

"Once the broad limits of such an understanding were established McNamara believed, then the specific form of assistance to be provided by individual developed nations to particular developing countries could be examined. It would then become apparent that it is relatively unimportant whether the assistance is to take the form of commodity agreements, debt relief, trade concessions, bilateral aid, or multilateral financing – or any particular combination of these – provided the overall total is adequate.

"This pragmatic approach in McNamara's thinking was to result the following year in his proposal that Willy Brandt, former Chancellor of the Federal Republic of Germany, and Nobel Laureate, should convene and chair a private and wholly independent commission of experienced and distinguished individuals, drawn from the developing and industrialized countries, whose purpose would be to assess and recommend feasible alternatives to the continuing North-South deadlock.

1977:

"Before that was to happen, McNamara was invited by the president of the prestigious Massachusetts Institute of Technology to deliver a lecture in its special bicentennial series on 'World Change and World Security.' He decided to use this important forum to make another major address on the population problem. It turned out to be the most comprehensive statement on a single subject that McNamara ever made while president of the Bank.

A Major Address on the Population Problem

"Fifty-four printed pages in length, the statement was in effect a tightly argued monograph. At the outset, McNamara indicated that he was going to do four things: examine the background of the population problem; analyze its current trends; evaluate the measures available to deal with it; and suggest the actions that governments and others can and must take to help solve it.

"I want,' he began, 'to discuss with you tonight a subject that has nothing whatever to do with military phenomena – but a very great deal to do with global tranquillity.

"It is the issue of population growth.

"Short of thermonuclear war itself, it is the gravest issue the world faces over the decades immediately ahead.

"Indeed, in many ways rampant population growth is an even more dangerous and subtle threat to the world than thermonuclear war, for it is intrinsically less subject to rational safeguards, and less amenable to organized control.

"The population growth of the planet is not in the exclusive control of a few governments, but rather in the hands of literally hundreds of millions of individual parents who will ultimately determine the outcome.

"That is what makes the population threat – even more than the nuclear threat – diffuse and intractable. And that is why it must be faced – like the nuclear threat – for what it inevitably is: both a central determinant of mankind's future, and one requiring far more attention of the world community than it is presently receiving.'

Rate of Population Decline Too Slow

"McNamara indicated that there at last appeared to be a significant decline in fertility in the developing countries, but that though that was welcome the fact remained that the current rate of decline was too slow to avoid their ultimately arriving at stationary populations far in excess of acceptable levels.

"Unless governments, through appropriate policy action, can accelerate the reduction in fertility, the global population may not stabilize below 11 billion. that would be a world none of us would want to live in.'

Governments Must Promote Population Control

"Governments, he underlined, must avoid the severe penalties of procrastination, and try to hasten the stabilization process forward. But how?

"The causes and determinants of fertility reduction, he admitted, are extremely complex, but it appears likely that there are a number of key linkages between that reduction and certain specific elements of socio-economic growth.

"The factors that appear to be most important, McNamara concluded, are: health, education, broadly distributed economic growth, urbanization, and the enhanced status of women.

"Those factors were at work in the developing world, he said, but their progress is too slow to be fully effective. Without additional intervention on the parts of governments, the current population there is going to continue to grow at rates very substantially in excess of those that would permit far more economic and social progress.

Government Must Intervene in Two Areas

"There are, he argued, two broad categories of interventions that governments must undertake: those designed to encourage couples to desire smaller families; and those designed to provide the parents with means to implement that desire.

"The first set of interventions sets out to alter the social and economic environment that tends to promote fertility, and by altering it to create a demand among parents for a new and smaller family norm. And the second set of interventions supplies the requisite means that will make that new norm attainable.

A Change in Family Values

"To create the demand for a change in family norm, governments should try to:

"Reduce current infant and child mortality rates sharply.

"Expand basic education and substantially increase the proportion of girls in school.

"Increase the productivity of smallholders in the rural areas, and expand earning opportunities in the cities for low-income groups.

"Put greater stress on more equitable distribution of income and services in the drive for greater economic growth.

"And above all else, raise the status of women socially, economically and politically.

The Role of Government in Family Planning

"To satisfy the demand for a change in family norms, governments and the international community should:

"Provide a broad choice of the present contraceptive techniques and services to parents.

"Improve the delivery systems by which parents can get the services they wish.

"And expand present levels of research seeking better techniques and services.

"While McNamara admitted that some observers disagreed over the relative importance of social development and family planning efforts in reducing fertility – some saying the former was too indirect, and others saying that the latter was too inefficient – he argued firmly for the need for both.

"Indeed, throughout the whole of this 20,000 world treatise on the tangled complexities of the population problem. McNamara remains at his expository best: his reasoning advances step by step from premise to conclusion, always clear and cohesive, always tight and orderly.

A Humanistic and Philosophical Address on Government Imposed Family Planning

"And yet the argument never becomes merely impersonal and clinical. It remains humanistic in its tone, and philosophical in its reach: traits that were characteristic of McNamara's best policy statements.

"Consider the sensitivity of the following passage. In it McNamara is stressing the importance of trying to understand the mindset of villagers regarding family size.

"The reasons for fertility reduction that many be persuasive to planners sitting in distant capitals,' he points out, 'may not be persuasive at all to parents sitting in remote villages. Village couples rarely worry about the progress of the gross national product.

"What they may well worry about is the progress of a sick child, or how they are going to accumulate enough savings to secure their old age, and whether the

signs are auspicious that the next pregnancy will finally give them a second son, rather than a third daughter.

"As we have said, it is the poor, as a generality, who have the most children. And it is the poorest countries, as a generality, that have the highest birth rates.

"But it would be a mistake to think that the poor have children mindlessly, or without purpose, or – in the light of their own personal value systems – irresponsibly.

"Quite the contrary. The poor, by the very fact of their poverty, have little margin for error. The very precariousness of their existence habituates them to be cautious. They may be illiterate. They are seldom foolhardy. To survive at all, they are forced to be shrewd.

"What we must grasp is that poverty does not make people unreasonable. What it does do is severely reduce their range of choice. They often do what they do because there is little real opportunity to do otherwise.

"Poor people have large families for many reasons. But the point is they do have reasons. Reasons of security for their old age. Reasons about additional help on the land. Reasons concerning the cultural preference for sons. Reasons related to the laws of inheritance. Reasons dictated by traditional religious behavior. And reasons for personal pride.

"Demography measures people. It cannot always measure their inner feelings.

"And yet understanding poor people – and the narrow range of options that poverty offers them – is the key to assisting them to broaden their choices.'

"To the connoisseur, that passage might well be called vintage McNamara.

1978:

"In the Annual Meeting address of the following year, McNamara pushed even harder on the need for the rich and poor nations alike to do more to combat absolute poverty.

A Call for the West to Increase Financial Support for LDCs

"The need to give greater attention to the problems of the absolute poor,' he said, 'has been increasingly recognized in international discussions. But the intractability of these problems and the scale of efforts needed to reduce the numbers of absolute poor have not been fully appreciated.'

"The latest studies in the Bank had concluded that, even under somewhat optimistic assumptions, some 600 million individuals at the end of the century would remain trapped in absolute poverty. That was shocking and unacceptable, he said, and he asked: 'Now, what can be done to reduce this level of poverty?' His reply, as usual, was candid.

"The World Bank does not have a full and complete answer to that question, nor do I know of anyone in the world who does. And that is why I urge that the Brandt Commission, the Development Committee, the UN Overview Committee, UNCTAD, the Development Assistance Committee, and other international groups – and above all the individual developing countries themselves – each give serious and detailed attention to it.'

The Need for Government Programs to Eliminate Poverty

"But McNamara argued that even though no one as yet had a fully comprehensive answer to the problem of absolute poverty, he believed that within the present limits of our knowledge, each of the developing countries could – and should – set specific goals for its own society's direct attack on poverty; and that the international community, in the appropriate forums, should endorse these goals, and pledge the necessary support.

"As I have emphasized,' he said, 'such an attack on absolute poverty can only succeed in an environment of growth. And support from the international community – through further expansion of trade and more adequate capital flows – is essential if optimum rates are to be achieved.'

The Need for Economic Growth

"Driving home this central conviction, McNamara emphasized again that 'though growth is an absolutely necessary condition for reducing poverty, it is not in itself a sufficient condition. For growth cannot help the poor unless it reaches the poor.'

"Growth, he stressed, does not reach the poor sufficiently today, and hence the developing countries must both:

"Modify the pattern of growth so as to raise the productivity of the poor; and

"Improve the access of the poor to essential public services: to clean water, to basic education, to preventative medical care, to electricity, to public transportation – to those services fundamental to their health and productivity.

"Now, I am not suggesting,' he admitted, 'that any of this is easy to do. It is not. What I am suggesting is that absolute poverty can never be eliminated by traditional welfare. And the reason is obvious. No feasible redistribution of already

inadequate national income in a developing society is, by itself, going to be enough to wipe out poverty. There must be growth in that income, and the poor must be enabled both to contribute more productively to that growth, and to participate more equitably in its benefits'

The Tragic Plight of the Poor

"The tragedy of the absolute poor, he reminded the high officials in his audience, is that they remain largely outside the entire development process. They must be brought more fully into it, and that could only be done by the developing countries themselves.

"Conditions, he conceded, clearly differ from society to society, but what is essential is that governments:

"Formulate attainable anti-poverty objectives at national, regional, and local levels;

"Define clear operational programs, and institutional policies, for achievement of the objectives within specific time periods; and

"Determine the level of resources required to meet the minimum goals.

"'Unless such practical steps are taken by the governments in developing societies,' McNamara reiterated, 'the hope to reduce absolute poverty simply cannot be translated into effective action. Certainly no external development agency – no matter how helpful – can substitute for the internal political resolve necessary to take these steps. But once that firm resolve is evident, then the international community must support these politically difficult decisions with comparable courage and generosity.'

The Time for Government to Act Is Now

"McNamara concluded his address on a sober note.

"'We must be candid about the choices that confront us. There are no easy alternatives. But to relax in the development effort, to lose momentum, to procrastinate, to let problems fester and grow worse – that choice can benefit neither us, nor those others who must follow after us.

"'We know who those others are. They are our children.

"'Will their world be more rational, more compassionate, more peaceful, more human?

"That choice is more ours than theirs. For the options are closing, and the inevitable chain of consequences is already underway.

"The time, then, to act is now. It is an opportunity that will not return.'

1979:

"McNamara sounded the same serious note as he began his Annual Meeting address in Belgrade the following year.

Difficult Problems to Beset the World in the 1980s

"We meet this year as one turbulent decade draws to a close, and what promises to be an even more critical one is about to begin.

"We need not be reminded that the economic strains of the 1970s have been more severe than any since the disruption of World War II and the global depression that preceded it. But the truth is that the problems that will confront us all in the 1980s are almost certain to be more difficult. More difficult because with the loss of irrecoverable time the easier solutions to these problems have begun to disappear.

"What we will be left with in the decade ahead are increasingly painful dilemmas that can no longer be ignored or postponed. We are going to have to decide – and decide soon – if we can really afford to continue temporizing with severe development problems that are getting worse rather than better.'

A Review of the 1970s Strategy

"McNamara reviewed the progress of the Second Development Decade, the 1970s, and the international community's official strategy that had put such emphasis on reaching certain overall performance targets. Not only were there going to be serious shortfalls in achieving these goals, but the overall performance statistics themselves obscured very significant differences between various groups of countries.

"Income grew the least in the 1970s, he stressed, where it was needed the most: in the poorest countries, containing over half the population of the developing world. The economics of most of these nations with hundreds of millions of their people already trapped in absolute poverty, had scarcely advanced at all.

"In the end effective development strategies revolve essentially around policy choices.... It seems to me, therefore, that a more practical approach for DDIII planning would be to consider in detail the hard policy choices that the developing and developed countries alike are going to have to confront in the Eighties and beyond if fundamental development objectives are to be realized.'

Difficult Policy Choice Facing the World

"These policy choices would, he said, inevitably have to deal with such immense and complicated problems as population growth, food production, employment creation, urbanization, reducing absolute poverty, and expanding international trade and financial flows.

"McNamara commented on all of these problems during the course of the address, as well as on the world Bank's own involvement with them, and underscored again the need for a basic understanding between the developed and developing countries over essentials. One of the principal frustrations of the North-South Dialogue had been that it had become so bogged down in arguments over the means that it had tended to lose sight of the ends.

"Such an understanding,' he argued, 'is all the more necessary because we simply do not yet possess the same instruments of implementation at the international level which are available – and taken for granted – at the national level.

The Lack of a Global Planning System and International Taxation

"There is obviously no global planning system, no world treasury based on international taxation, and no central budgeting machinery to allocate governmental financial resources.

"It is possible – even likely – that some of these institutions will eventually evolve. Certainly the realities of our increasing interdependence ought to move us all towards less arbitrary and hopefully more rational management of global resources.

"In the interim we must shape and improve the institutions and the system we have as wisely as we can.'

1980:

"When Robert McNamara walked to the lectern on September 30, 1980, it was exactly 12 years to the day that he had first addressed the Board of Governors at the World Bank's Annual Meeting. In June of 1980 he had informed the Executive Directors that he would retire from the service of the Bank in June of 1981. The huge audience, then, knew that this was to be his valedictory address, and they expected it to be something memorable. It was.

A Valedictory Address

"This is the thirteenth, and final, address' he began, 'that I will have the privilege of making in this forum. The occasion, I believe, placed on me a special

responsibility, and hence what I will have to say this morning will be particularly frank and candid, especially as it relates to the future role of the World Bank.'

"Recalling that over the past dozen years the World Bank Group's lending program had expanded dramatically its level of financial assistance to the developing world from approximately \$1 billion to FY1968 to more than \$12 billion in FY1980, McNamara pointed out that the Bank's policy had not been simply to do more, but rather 'we wanted to do more of what would contribute most to our member countries' evolving development needs.'

"There had been major qualitative change in the Bank's lending, and in its development policies. The change arose out of the understanding that 'if the absolute poor had to wait for the benefits of overall economic growth to trickle down to them, their incomes and welfare would inch forward at an intolerably slow pace.'

The Bank Made a Concerted Effort to Assure Equitable Distribution of Services to LDCs

"Throughout the 1970s the Bank had made a determined effort to help its developing member countries to devise policies and investment programs to assist the poor in their societies to become more productive, and to assure an equitable distribution of basic services to them.

"In the FY1964-68 period, such loans from the Bank had amounted on average to only \$60 million per year, and accounted for less than 5% of total lending. In FY1980 they had grown to \$3,565 million, and accounted for over 30% of total lending.

"In FY1980 alone the Bank approved agricultural and rural development projects to raise the productivity, and thereby the incomes, of 29 million people, including 18 million of the world's poorest – and to increase food production by 6 million tons per annum.

"But added McNamara, investments in highways, electric power, and other traditional infrastructure and production investments remain 'vital to development.' They are, he emphasized, 'basic to strengthening the foundations of growth, and to expanding employment opportunities and enhancing the incomes of all members of society.'

Increase of World Bank Lending

"While the Bank reduced the share of lending to these sectors, McNamara explained, it substantially increased its absolute volume. Bank lending for traditional infrastructure projects grew from an annual average of \$700 million in

1964-68 to \$4.4 billion in 1980; and for traditional production projects, from \$350 million to \$3.5 billion.

"Only by raising its overall level of lending was the Bank able to meet its member countries' new development needs without neglecting their traditional requirements. This would clearly continue to be the case throughout the 1980s and beyond.

Four Events Undermine the Bank's Lending Program

"The Bank's lending program for FY1981-85 had originally been drawn up in early 1977. But four events had intervened in the meantime that had invalidated the underlying assumptions of that program. These were:

"1. A much greater inflation rate than had been projected in 1977.

"2. The unexpected doubling of oil prices over the past 18 months, and restricted growth in the oil-importing developing country exports to the nations of the Organization for Economic Co-operation and Development (OECD), resulting in huge current account deficits and the critical requirement for new structural adjustments.

"3. The resulting need – both in their own interest, as well as that of the world community – for these oil-importing developing countries to invest in and develop their own domestic energy resources.

"4. The change in the representation of China in the Bank, increasing by 45% – approximately a billion individuals – the number of people who now needed, who now desired, and who were now entitled to have World Bank lending.

"'What we need to do now,' McNamara urged, 'is to reach broad agreement on the following objective.'

"The Bank should:

"Increase its lending program in order to offset fully the higher-than-anticipated inflation levels;

"Finance structural adjustment, but not at the cost of reducing the development finance already planned for the oil-importing developing countries;

"Assist in financing an expanded energy development program, but not at the cost of cutting its assistance to other equally vital programs; and

"Respond to the development needs of China, but not at the cost of its other borrowers.

"All of this can be done,' McNamara emphasized, 'in a manner that takes full account of the current budgetary constraints faced by governments of the developed nations, provided we make full use of the potential of the Bank's capital base, and facilitate the use of the large private resources available for sound investment opportunities.'

The World's Largest and Most Powerful Development Institution

"McNamara concluded his address by noting that through the support of its member governments the World Bank over the past ten years had become by far the world's largest and most influential development institution. That was important. But what was far more important, he said, was what had transpired throughout the developing world in the millions of individual lives that the institution had touched.

"What these countless millions of the poor need and want is what each of us needs and wants: the well-being of those they love; a better future for their children,; an end to injustice; and a beginning of hope.

"We do not see their faces, we do not know their names, we cannot count their number. But they are there. And their lives have been touched by us. And ours by them.'

The World Bank Has Only Begun to Achieve Its Potential

"As McNamara spoke these words his voice broke with emotion. He paused, and with difficulty concluded his address with this final passage:

"And now – if I may – let me add a purely personal note. These past 13 years have been the most stimulating of my life. I wouldn't have traded them for anything. And I want to say to all of you how deeply grateful I am for the privilege of having served with you throughout these years.

"This World Bank – born out of the ruins of World War II – has grown into one of the world's most constructive instruments of human aspiration and progress. And yet, it has only barely begun to develop its full potential for service and assistance. There is so much more it can do, so much more it ought to do to assist those who need its help.

"Each one of us can help make that happen. And how can we begin? We must begin – as the founders of this great institution began – with vision. With clear, strong, both vision.

"George Bernard Shaw put it perfectly: "You see things, and say why? but I dream things that never were, and I say why not?"

"McNamara, by now almost unable to speak, left the rostrum, as the huge audience rose to its feet and gave him what even the restrained *New York Times* described as 'a thunderous ovation.'

"A very moving moment had passed, but in the minds of many that day there remained the question: had an era ended...or, in McNamara's words, had it just barely begun?" (John L. Maddux, *The Development Philosophy of Robert S. McNamara*, World Bank, 1818 H Street, N.W., Washington, D.C. 20433, June 1981, pp. 9-37.)

Part IV – The McNamara Legacy

John L. Maddux, who assisted McNamara in the preparation of his various public addresses, feels that there are a dozen major themes which McNamara outlined during his tenure as President of the World Bank. In a section entitled, "The McNamara Legacy," Maddux states:

"As is obvious, any serious examination of the principal public statements of Mr. McNamara reveals an evolving and wide-ranging set of insights on international development. His thinking is rich and complex. But if one were arbitrarily to limit oneself to perhaps a dozen major themes from these sources, the following points – some explicit, some implicit – would clearly emerge from such a survey.

I. The fundamental nature of development

"McNamara does not view development exclusively as 'economic progress,' but rather as something more fundamental. 'Development is clearly not simply economic progress measured in terms of gross national product. It is something much more basic. It is essentially human development; that is, the individual's realization of his or her own inherent potential.' On the scale, then, of human activities, development is of immense importance, and should rightfully command priority. 'Development is about people. The only criterion for measuring its ultimate success or failure is what it does to enhance the lives of individual human beings.'

II. The role in development of the concept of equity

"McNamara sees the concept of equity as central to the development process. He believes that our own era in human history is characterized by that concept's gradually becoming more universal and compelling. 'If we look around the world today realistically,' he says, 'it is evident that the desire for a greater degree of equity – for a more just and reasonable equality of opportunity among individuals, both within nations and between nations – is becoming a major concern of our time.

"It is a trend that has been gathering momentum for century or more. The rise of the labor union movement, the drive against racial discrimination, the expansion of civil rights, the enhancement of the status of women – these and similar movements have all had an ingredient in common: the surge towards greater social justice and more equitable economic opportunity.'

"If the rich nations do not act,' he says, 'through both aid and trade to diminish the widening imbalance between their own collective wealth and the aggregate poverty of the poor nations, development simply cannot succeed within any acceptable time frame. The community of nations will only become more dangerously fragmented into the privileged and the deprived, the self-satisfied and the frustrated, the complacent and the bitter. It will not be an international atmosphere conducive to tranquility.

"The developed nations, then, must do more to promote at least minimal equity in the distribution of wealth among nations. But the developing nations must do more as well. Their internal equity problems are no less important than those of the international community at large. In the developing nation's pursuit of rapid economic growth, the poorest 40% of their populations are being largely left behind.'

"Governments exist to promote the welfare of all of their citizens – not just that of a privileged few. Absolute egalitarianism is as chimerical as absolute laissez-faire, but what is certain is that absolute human degradation – when it reaches the proportions of 30 to 40% of an entire citizenry – cannot be ignored, cannot be suppressed, and cannot be tolerated for too long a time by any government hoping to preserve civil order.'

III. Development comprises a twofold task: to accelerate economic growth, and to eradicate absolute poverty

"McNamara believes that these two objectives must be primary elements of any sound overall development strategy. 'The two goals,' he emphasizes, 'are intrinsically related, though governments are often tempted to pursue one without adequate attention to the other. But from a development point of view that approach always fails in the end. The pursuit of growth without a reasonable concern for equity is ultimately socially destabilizing, and often violently so. And the pursuit of equity without a reasonable concern for growth merely tends to redistribute economic stagnation. Neither pursuit, taken by itself, can lead to sustained, successful development.'

"Malnutrition saps their energy, stunts their bodies, and shortens their lives. Illiteracy darkens their minds, and forecloses their futures. preventable diseases maim and kill their children. Squalor and ugliness pollute and poison their surroundings. The miraculous gift of life itself, and all its intrinsic potential – so

promising and rewarding for us – is eroded and reduced for them to a desperate effort to survive.'

"Compared to those fortunate enough to live in the developed countries, individuals in the poorest nations have: an infant mortality rate eight times higher; a life expectancy one-third lower; an adult literacy rate 60% less; a nutritional level, for one out of every two in the population, below minimum standards; and for millions of infants, less protein than is sufficient to permit optimum development of the brain.'

"And when we reflect on this profile of poverty in the developing world we have to remind ourselves that we are not talking about merely a tiny minority of unfortunates – a miscellaneous collection of losers in life – a regrettable but insignificant exception to the rule. On the contrary, we are talking about hundreds of millions of human beings – 40% of the total population of over 100 countries.'

IV. The key to reducing absolute poverty

"McNamara insists that any successful effort to combat poverty in the developing countries has to do two basic things: assist the poor to increase their productivity; and assure their access to essential public services. 'Unless specific efforts are made to help them realize their productive potential, no feasible degree of traditional welfare or simple redistribution of already inadequate national wealth can fundamentally alter the circumstances that impoverish them.'

"A critical component of that approach is for governments of developing countries to provide better access for the absolute poor in their societies to essential public services, particularly basic education, primary health care, and clean water. These fundamental services – combined with the better shelter and nutrition that improved incomes can afford – are the key to the poor's being able to meet their own basic needs.'

"Not only are essential public services often out of financial and geographic reach of the poor, but such facilities as are in place may be so inappropriately designed as to be virtually irrelevant to their needs: impressive four-lane highways, but too few market roads; elaborate curative-care hospitals, but too few preventive-care rural clinics; prestigious institutions of higher learning, but too few village literacy programs.

"Public services that are designed modestly and at low cost per unit will almost certainly end by serving the privileged few rather than the deprived many. To reverse this trend, governments must be prepared to make tough and politically sensitive decisions, and to reallocate scarce resources into less elaborate – but more broadly based – delivery systems that can get the services to the poor, and the poor to the services.'

V. The Importance of the population issue

"There is no question that McNamara considers it critically important that the developing countries find and apply a rational and humane solution to their population problem. 'To put it simply: the greatest single obstacle to the economic and social advancement of the majority of the peoples in the underdeveloped world is rampant population growth. Having said that, let me make one point unmistakably clear: the solution of the population problem is in no way a substitute for the more traditional forms of developmental assistance: aid for economic infrastructure; aid for agriculture; aid for industrialization; aid for education; aid for technological advance. The underdeveloped world needs investment capital for a whole gamut of productive projects. But nothing would be more unwise than to allow these projects to fail because they are finally overwhelmed by a tidal wave of population.'

VI. The dangers to both developed and developing countries of trade protectionism

"McNamara's view is that unless the international community resists – and rolls back – the trade protectionism that has been growing in recent years, everyone will be the ultimate loser. 'Just as the developing countries have begun to demonstrate their natural comparative advantage in certain labor-intensive manufactures, a new threat of protectionism is gathering momentum in the developed world. This is both inequitable and shortsighted since it denies the developing countries the only long-range economic strategy that can ultimately decrease their dependence on foreign assistance.

"'Already the developing world constitutes an important and growing market for the exports of the industrialized nations, stimulating demand and helping hasten their own economic recovery. But if the developing countries are to import even more goods and services from the OECD nations – which they both need and want to do – then they must be allowed in return to export more to those same nations in order to earn the foreign exchange necessary to do so.

"'In the end, excessive protectionism is self-defeating for everyone: for consumers, who are denied less expensive, and hence less inflationary, imports; and for producers, who are denied competitive access to expanding markets.

"'What is required is a more rational framework of international trade that will reduce protectionism on both sides by promoting the dismantling of non-tariff barriers, and by broadening the scope of true comparative advantage. In the industrial countries this will require initiating adjustment procedures that can ease the shift of capital and labor away from marginal industries into more competitive and productive sectors.'

VII. The moral case for development assistance

"McNamara believes that though there are many grounds for development assistance, the moral case is the basic one. "There are, of course, many sound reasons for development assistance. But the fundamental case is, I believe, the moral one. The whole of human history has recognized the principle that the rich and powerful have a moral obligation to assist the poor and the weak. That is what the sense of community is all about – any community: the community of the family, the community of the nation, the community of nations itself.

"Moral principles, if they are really sound – and this one clearly is – are also practical ways to proceed. Social justice is not simply an abstract ideal. It is a sensible way of making life more livable for everyone.

VIII. The national-interest case for development assistance

"McNamara concedes that the moral argument for the developed nations to assist the developing countries does not persuade everyone. For those citizens in a developed nation who prefer arguments that appeal to national self-interest, he points out that there are some very strong ones. In this passage he uses the example of the United States, but in other passages he has cited the same kind of specific statistics for other OECD nations.

"Exports provide one out of every eight jobs in U.S. manufacturing, and they take the output of one out of every three acres of U.S. farm land – and roughly one-third of these exports are now going to the developing countries. Indeed, the U.S. now exports more to the developing countries than it does to Western Europe, Eastern Europe, China, and the Soviet Union combined.

"Further, the U.S. now gets increasing quantities of its raw materials from the developing world – more than 50% of its tin, rubber, and manganese plus very substantial amounts of tungsten and cobalt, to say nothing of its oil. The U.S. economy, then, increasingly depends on the ability of the developing nations both to purchase its exports, and to supply it with important raw materials. and the same sort of relationship of mutual interdependence exists between the other industrialized countries – the Common Market, and Japan – and the developing world.

"Thus, for the developed nations to do more to assist the developing countries is not merely the right thing to do, it is also increasingly the economically advantageous thing to do.'

IX. The developing world has made unprecedented progress in the past quarter century, but continues to face very critical problems

"McNamara believes that the progress in the developing world since 1950 demonstrates an immense achievement, but that very serious difficulties remain to be solved. 'If one looks objectively at the developing world's economic record during the past quarter century, it is impressive. It surpasses the performance of the present industrialized nations for any comparable period of their own development.'

"Nor was the achievement exclusively economic. Important social progress was made as well. Average life expectancy, for example, was expanded from about 40 years to 50 years. Though 50 is still 30% lower than the longevity currently enjoyed in the industrialized nations, it took Western Europe a century to achieve what the developing nations did in 25 years.'

"These emerging societies have also succeeded in increasing the literacy of their peoples. Twenty-five years ago 65 million children were in primary school. Today, 260 million are. Then, only 7 million were in secondary and higher institutions. Today, 65 million are. In 1950, only a third of their adult population could read and write. Today, more than a half can. Much of this social progress was possible because the real per capita income of the developing world had more than doubled during the period.'

"But the unexpectedly high average rate of growth conceals significant differences between groups of countries.

"The poorest nations have done only half as well as the middle-income group. Crippled by serious disadvantages, these societies have witnessed their growth gradually diminish. And collectively they contain more than half the total population of the developing world.

"In the middle-income countries, the rates of growth have been better, but here too the averages obscure sharply skewed income patterns. Far too many in these societies – as in the poorest nations – have been able neither to contribute much to economic growth, nor to share equitably in its benefits. Development has passed them by.

"The tragedy of the absolute poor is that they are trapped in a set of social and economic circumstances that they cannot break out of by their own efforts alone. Hundreds of millions of them cannot read or write; are seriously malnourished; have no access to adequate medical care; are without adequate shelter; and have no meaningful work. Their basic human needs are simply not met.

"For these hundreds of millions, development has failed. It will continue to fail unless the dynamics of absolute poverty are dealt with directly, and reversed.

"There are two essential things that must be done. The rate of economic growth of the developing nations must be accelerated. And more of the benefits of that growth must be channeled towards helping the absolute poor meet their basic human needs.'

X. The World Bank is an international development institution, not a philanthropic organization

"McNamara believes that there is no inherent contradiction between the World Bank being a well-run, hard-headed, prudent, and careful investor of other people's money, and at the same time being a socially responsible development institution, sensitive to the needs of basic human welfare. In the 35 years of lending operations, the Bank has never lost a penny, and its earnings throughout that period total \$4.7 billion, including \$588 million in FY1980. His view is that the greatest contribution the World Bank's staff can make to development is to help the developing countries use their scarce resources as effectively as possible.

"Now how can we help lift this burden of absolute poverty from off the backs of a billion people? That is a problem we have been dealing with at the World Bank intensively for the past six or seven years.

"It is clear that we in the richer countries cannot do it by our own efforts. Nor can they, the masses in the poorest countries, do it by their own efforts alone. There must be a partnership between a comparatively small contribution in money and skills from the developed world, and the developing world's determination both to increase its rate of economic growth, and to channel more of the benefits of that growth to the absolute poor.

"Most of the effort must come from the developing countries' own governments. By and large they are making that effort.

"In the past decade, the poor nations have financed over 80% of their development investments out of their own meager incomes. But it is true they must make even greater efforts. They have invested too little in agriculture, too little in population planning, and too little in essential public services. And too much of what they have invested has benefited only a privileged few. That calls for policy reforms, and that is, of course, always politically difficult.

"In any event, whatever the degree of neglect the governments in the poor countries have been responsible for, it has been more than matched by the failure of the developed nations to assist them adequately in the development task.'

"The current account deficits of the oil-importing developing countries have risen dramatically. The increase in these deficits is the mirror image of a portion of the rise in the surpluses of the oil-exporting nations. A major objective of the world's intermediation effort to deal with these surpluses must be to assure that

appropriate portions of them flow, directly or indirectly, back to these developing countries.

"The assistance the developing societies will need in the 1980s – both to alleviate their burden of absolute poverty, and to facilitate the structural changes in their economies required by the changes in the external environment – is much larger than was projected before the events of the past 18 months.... That is why all previously planned programs of international assistance, including that of the Bank, much be reexamined in order to determine how the most urgent needs of the developing world can be met.

"It is in this perspective that the future level of World Bank lending, and the nature of its operating policies, should be reviewed. The Bank clearly cannot do everything. Nor should it try to. But neither can it be allowed to fail in its basic responsibility toward its developing member countries.'

XI. The President of the World Bank has a teaching role as well as a financial and managerial responsibility

"Though aware of the sensitivities involved, McNamara clearly felt a strong responsibility to use the presidency of the World Bank as a unique podium from which to say candidly to the world those things he felt needed saying on the subject of development.

"What is remarkable is that he was able to say things about the performance of both the developed and developing countries that almost no one else of international stature in the world today could or would say and still be listened to with respect and credibility. But he saw it as his task to be rigorously objective, and to tell both the rich and poor nations what the development facts were, and consequently where their respective duties lay.

"One commentator in the press observed that 'the poor countries like to think of Mr. McNamara as an Old Testament prophet who emerges occasionally from periods of meditation to rail against the rich nations for their stinginess.' Another termed him a 'planet-saver...a public figure with world vision, an evangelical bent, and a realization of what an endangered species mankind is.' Still another called him 'a kind of conscience for the rich nations.'

"But if McNamara was a conscience, it was not for the rich nations alone. He repeatedly made the point to the developing countries that they bore the chief responsibility for their own economic progress, and that it was their task to see that all the groups in their societies both contributed more to national development and shared more equitably in its benefits.

"He called on the governments of the developing countries to take those politically tough and courageous decisions that give the absolute poor better access

to essential public services, and then help them to enhance their own productivity. But he always matched that plea with one directed to the governments of the developed nations that they exercise comparable political courage and make available greater development assistance to those developing countries willing to carry out these difficult tasks.

"He stressed over and over again that no outside development assistance could substitute for the internal domestic efforts that the developing societies themselves must make, but he was equally insistent that for the developed nations to deny reasonable assistance was short-sighted, inequitable, and ultimately self-defeating.

"In his final address to the Board of Governors – representing the entire membership of the Bank, rich and poor nations alike – he made the point with his characteristic candor. Absolute poverty, he said 'is an open insult to the human dignity of us all: to the poor themselves, because simply as human beings they have deserved better; and to all of us in this room, for we have collectively had it in our power to do more to fight poverty, and we have failed to do so.'

"But if McNamara believed that not nearly enough had yet been done to rid the world of the intolerable indecency of poverty, he recognized that progress had been made. Towards the close of that last address, he put the matter modestly.

"None of us, of course, can pretend that our understanding of the complexities of the poverty problem is complete. We are all still learning. But I believe we can take a measure of satisfaction that many governments and institutions throughout the international development community, including this Bank, are beginning to think about poverty in a more thoughtful way than they did a decade ago. And they are beginning to ask themselves how they can reshape their own efforts to deal with it more effectively.

"He was right, but much too modest. The view that there need not be a punitive trade-off between economic growth and equity, and that there were workable solutions to the plight of the absolute poor, had gained wide acceptance in both the developing and developed nations. It had helped reshape development strategy in dozens of societies, and had resulted in a substantial thrust in the Bank's own lending program toward investments specifically designed to raise the productivity of the poor, and assure them access to essential public services.

"Clearly he was right: many governments and institutions, including the Bank – not to mention an immense audience all around the world – had begun to think about poverty in a more profound and practical way.

"It was due largely to his own dedicated leadership. And in the end it might well turn out to be the most lasting achievement of all of this very extraordinary man." (Maddux, pp. 38-48.)

Conclusion

Mr. McNamara's views on global socialism are quite revealing. The World Bank has become quite adept at redistributing income on a global basis. Regardless of who heads the organization, it continues to support and advance the policies of the elite power structure whose goal is the development of a world state.

Part V – Strengthening the World Bank

In September of 1981, the Council on Foreign Relations in New York published a book by Miriam Camps and Catherine Gwin entitled, *Collective Management – The Reform of Global Economic Organizations*. This book was one of the concluding volumes of the 1980s Project of the Council. The purpose of the book was pointed out by Camps and Gwin, as follows:

"In looking to the future, we seen the main responsibility for rule-making, rule-enforcement, and collective management of today's international economic system of the coexisting, still embryonic, global economy as resting on a tripod of global-level organizations: improved and reformed versions of today's IMF and World Bank Group and of yesterday's ITO. The major weight of the needed global management cannot be borne by universal one-nation, one-vote organizations [United Nations] but only by organizations in which there is some correspondence between voting strength and economic power, ability to affect the system, and responsibility. This does not mean that small or weak countries cannot be given a larger voice. Dependence on the system, as well as the ability to affect it in a positive or negative way, should be a factor in determining how votes are apportioned.

"The right pattern for these key global institutions is along the lines agreed upon at Bretton Woods: any country can join, provided it accepts the basic commitment of the institution; all share in the decision-making process, but that process is a weighted one; and most countries are represented on the principal policy-setting and executive boards on a constituency basis, thus keeping the total number of participants in these bodies to a manageable size. Within this general pattern, improvements are needed in the way votes are distributed and constituencies organized. Each leg of the tripod requires more than modifications in its organizational structure and its procedural arrangements. New ways must be found to deal with new problems, and many problems must be seen in a changed perspective. The world has changed in many ways since Bretton Woods. The constituency of states is larger and more heterogeneous, the networks among states and other actors are denser, and the lines between foreign and domestic concerns are harder to draw. New values, new concerns, and new goals have brought old rules into question and suggested new ones." (Camps and Gwin, *Collective Management*, pp. 62-63.)

Management of an Imperial World Order

The goal of the global elite is to develop a New Imperial System which will effectively control the earth – its people and resources. In order to manage the earth it is necessary to eliminate the political and economic sovereignty of the 160 plus nations on the earth. In a New Imperial system the nation-states will be mere "administrative units" which follows the dictates of such global economic institutions as the IMF, OECD, BIS, IBRD and GATT.

In order to undermine the nation-states and their economic and political sovereignty, the elite of the world have created global economic institutions. Gradually, over a period of several years, these institutions have slowly been strengthened and given additional power to the place where they now have achieved dominance over every nation on earth.

Divergent Views on World Order

Collective management of the world can be successfully implemented only if the world is restructured into one economic unit. While there is some debate among the sub-elite and the government leaders of various nations concerning the future, global institutions are already in place to integrate the economies of the world and to "manage" them as a single unit. Camps and Gwin outlined the divergent arguments over world order as follows.

"One pattern that for obvious reasons, attracts much support in the highly developed, non-Communist, industrial world is that of concentric circles. Sometimes the innermost is the trilateral combination of North America (that is, the United States and Canada), Japan, and the European Community; sometimes it is a more limited group of the four, five, six, or seven most powerful industrial, market-economy countries. The second circle is usually the OECD group of countries, bringing in Australia, New Zealand, and the other Western European countries. But sometimes it is suggested that the second circle should be the OECD group plus some newly rich or rapidly industrializing countries. Saudi Arabia, South Korea, Israel, Brazil, Mexico, and, until recently, Iran are the most often-mentioned candidates for inclusion. Sometimes, as in the case of money, the most inclusive circle is an organization like the IMF, which is global in the sense that its membership is open to all countries that accept its rules but is not truly universal. At other times, the most inclusive circle is a more nearly universal organization, like the United Nations, which all countries, with very minor exceptions, participate. Under the concentric circles concept, the innermost group, by virtue of its high degree of interdependence and weight in the international system, both undertakes close coordination of key policies among its own members and provides the leadership for the wider universe of countries. Frequently, it is seen as, in effect, setting the rules for the system as a whole.

Regional Trading Blocks

"A second pattern, periodically advocated, is that of a world divided into several blocs, with essential rule-making done within each bloc and global institutions acting mainly as forums for the brokerage of differences between blocs. Again there are variants. Sometimes, although rather less often today than in the past, the competing groups or blocs are continents or other geographic regions. At other times, they are groups based on stage of development and ideology, such as the familiar First, Second, and Third Worlds, a tripartite division which, as we saw in Chapter 1, has already become anachronistic in many ways.

"A third pattern puts global institutions in the central place, gives paramountcy to global rules, and regards other arrangements, both regional and functional, as ancillary or subordinate. (Camps and Gwin, *Collective Management*, pp. 52-54.)

Working Toward a Single International Economic System

Several groups of the sub-elite favor the second pattern while the elite favor a blend of the first and third patterns. Pattern one is for the current decade. That is where trilateralism and economic summits fit into the big picture. They are currently providing the steering necessary to keep the system intact, operating and evolving. Pattern three outlines the long-range goals of the elite. Under this pattern (No. 3) , the nation-state is an administrative unit of the New Imperial System. Global rules flow from global economic institutions. That is why the elite commission intellectual leaders such as Camps and Gwin to outline their long-range goal – governance by global institutions. Camps and Gwin point out the single economic unit goal of the elite as follows:

"Broad political reasons, as well as reasons arising from the character of the problems, seem to us to underline the importance of working toward a single international economic system rather than one characterized by a number of separate 'worlds' based on geography, ideology, or stage of development." (Camps and Gwin, p. 54.)

The Need for a Major Shift in Perspective Away From the Nation-State to Global Institutions

In the introduction to *Collective Management*, Camps and Gwin point out that: "The times may be unpropitious for some of the kinds of action we suggest and some of the shifts in perspective that we think are needed. But it is worth recalling that one of the most creative periods of thought about institution-building came during the darkest period of World War II and that another came during the frostiest years of the Cold War. The latter yielded not just defense pacts and arms races, as the revisionists would have us believe, but also a new awareness of the economic benefits to be gained from shifting the focus from the national unit to a

larger one: the European Community for some purposes, the OEEC/OECD area for others.

The Nation-State Is Obsolete

"Much of the new thinking that is now needed draws on these two streams of thought and action. The first is what might be called the 'Bretton Woods' stream. In brief, this was the recognition of the need for widely accepted rules to avoid 'begging neighbors' and to enable market forces to point to efficiencies internationally in much the same way as they do nationally. It also recognized the need for mechanisms to transfer resources among countries when, for various reasons, commercial markets failed to supply the credits needed for some of them to realize their potential for recovery from war or for economic development. The second is what might be called the 'integration' stream. This involved the realization that the nation-state is not the right unit, the efficient scale, in which to view and to cope with many economic problems. Both streams, the Bretton Woods and the integration streams, now need to be carried further, adapted to changing facts and changing needs, and blended together in new ways.

The Need for a Shift in Ideological Perspective

"The Bretton Woods conception assumed a different universe of states, a concentration of economic power, and a far less intense interaction among economies than we have today. The integration concept acknowledged this interaction but was concerned with the consequences of interdependence only for relationships among the advanced industrialized countries where the interactions were most pronounced. It also, of course, had political overtones and objectives, although these were weaker in the OEEC/OECD than in the European Community.

"The relevance of the integration conception for institutional needs at the global level is not only that it stressed the importance of closer coordination of policy as a consequence of market integration (financial as well as commercial) but also that it emphasized the need to shift the perspective in formulating certain policies from the nation-state to a larger unit. We are not suggesting that one can or should think about global institutional needs during the 1980s as though market integration on a global basis approached that within the European Community. Nor are we assuming that there is, or can be in this decade, more than a very rudimentary sense of world community, that is, of belonging to a common society. There is no global political compact from which obligations can be derived, no social structure to support much sense of belonging to a world community. What we do suggest is that, increasingly in the years ahead, some problems should be thought about and dealt with in ways that give more weight to considerations of 'global welfare' and to systemic effects than has been the case in the past. Our reasons are partly normative, but, mainly they derive from our perception of the way the world is moving." (Camps and Gwin, *Collective Management*, pp. 4-6.)

Three Key International Institutions

There are three predominant chapters in the Camps and Gwin book. Two chapters call for streamlining and strengthening of the IMF and IMRD. The third chapter calls for the replacement of GATT with a new Production and Trade Organization (PTO). These three global economic institutions are to provide for the "collective management" of the world. At the present the nations of the world, including Russian and China are being guided into the new "Imperial System." The LDCs have little choice. They either join the system or they will be able to buy and sell in the new "Imperial System" or world economy,. Eventually, the elite are planning to draw all nations into the "system". At that time the global economic institutions will truly be universal and the elite will dominate the world.

International Resource Transfers

In the meantime, the elite continue to employ academics such as Camps and Gwin to outline their goals. Chapter seven of *Collective Management* is entitled, "International Resource Transfers." This chapter deals with modifications the elite are planning for the World Bank and the regional banks. It is reprinted here in its entirety."

"The creation and expansion over the last three decades of a system of international resource transfers represents a major development in international economic cooperation. Developing countries now receive many kinds of external financing from a wide variety of official sources: other governments; the international financial institutions, particularly the World Bank, but also the regional banks and the IMF; a number of U.N. agencies; the European Community and other regional institutions; and the OPEC Special Fund. During the 1970s, the importance of private capital flows relative to official resource transfers increased – dramatically for a number of the higher-income developing countries. This increase in private lending to developing countries was part of the sea-change of international economics in the seventies. Still, official resource transfers – on concessional terms for today's low-income developing countries and on non-concessional terms for the higher-income developing countries – remain, and will remain for the foreseeable future, a key factor in prospects for global economic growth and a major issue in economic relations among states.

Improving Official Resource Transfers

"Several issues have become familiar elements in the continuing debate on how to improve official resource transfers. The main issues have to do with the amounts, terms and predictability of official development assistance; with the criteria for making choices about the countries and the activities to be given priority in the allocation of resources; and with coordination among today's many multilateral and bilateral programs. All these issues demand more attention if resource transfers in the 1980s are to match development needs. So, too, will some

new problems having to do with the growing diversity of financing needs. As we commented earlier, the increasing differentiation among states is rendering obsolete the sharp dichotomy between North and South, between rich and poor, making it more useful to see the universe of states as a continuum or spectrum rather than a collection of discrete groups divided by hard and fast lines. Clusters of states remain, some very rich, some very poor, some highly developed, some just started down that road. But, increasingly, one is aware that the demarcation between groups is fuzzy and that there is great diversity even within groups.

Need to Increase Financial Assistance to Regional Development Banks

"In thinking about reforms needed in the system of official transfers, we should put particular emphasis in the 1980s on instituting something like the U.N. Basic Support Program, discussed in Chapter 4, on increasing the amounts and broadening the types of financial assistance provided by the multilateral development banks, on giving recipient countries a greater voice both in development institutions and in the organization of their own assistance programs, on streamlining today's international resource-transfer system, which has grown haphazardly and become far too cumbersome, and on improving coordination with other parts of the system, and primarily between the World Bank and the IMF.

The Need to Eliminate Protectionism

"In recent years, there has been much reassessment of, and some change in, theories about strategies for development. These reappraisals and revisions cover a wide range of issues. After almost a quarter-century of disagreement and debate, fairly broad agreement is now beginning to emerge on the benefits to be gained from following a more export-oriented and less protectionist trade and industrial development strategy...." (Ibid, pp. 255-256.)

Conclusion

It is obvious that the World Bank is promoting not only socialism but the entire gambit of elite ideologies on the unsuspecting inhabitants of the world, especially the LDCs. The IBRD is based itself upon the ideologies of secularism, civil law and socialism. Its directors are carefully selected in order to perpetuate, enlarge and strengthen the IBRD. The IBRD is playing an important role in preparing the world to be managed as one "economic unit." The IBRD takes taxpayers money for its operations, however, it answers to no one but itself. It is a supranational organization that has now gained sufficient power and influence as to be immune to nation-state control. Economic and political sovereignty is daily being undermined by this mammoth organization. If the IBRD continues to grow and is given additional power and authority it is sure to continue its spread of socialism. It will also continue to serve the power elite as a central mechanism for control of the LDCs.

Congress is ultimately responsible for whether the United States participates in the global financial institutions such as the IMF, IBRD, the International Development Association (IDA), the Fund for Special Operations (FSO), the Inter-American Development Bank (KDB), the Asian Development Fund (ADF), and the African Development Fund (AFDF).

It is these institutions which have been designed by the elite to "manage" not only the advanced industrial nations but the LDCs as well. These institutions, through their loan mechanisms, have succeeded in gaining almost total control over the nations of the earth. Yet each year the U.S. Congress appropriates billions of dollars to these organizations. The IBRD has served the powers that preside over the nations of the earth well.

16. Bank For International Settlements – The Banker's Secret Conclave

The Basle Meetings

The Bank for International Settlements (BIS), located in Basle, Switzerland, has been called "the world's biggest experiment in world banking," "a super-central bank," and an "international bank." What exactly is the BIS and what functions does it perform? Just after the BIS was established in 1930, G. Glasgow noted:

"For good, for bad, the Bank for International Settlements is likely to be a new factor in the delicate and sensitive organism of international finance. No one can foresee what its effect may be; but its effect will be felt in every financial center throughout the world, especially in London, the world's chief money market. Nor can the work of high finance be circumscribed as a specialist phenomenon hardly concerning the non-expert. Most businessmen will be affected by what is done in Basle; every taxpayer will sooner or later feel the wind, soft or rough as it may be; the Foreign Offices will find in a greater or in a less degree that their policies will be influenced by the new force in finance...." ("A New Factor in International Finance," *Contemporary Review*, June 1930, p. 779.)

The World's First Central Bank

The history of monetary cooperation among bankers is over two centuries old. In 1675 a proposal for an international bank was submitted to the City of Geneva. Since 1694, when the world's first central bank, the Bank of England, was established, certain bankers have dreamed of the day when central banks throughout the world could be connected in an "official" network. Actually, for decades the Bank of England served as an international bank.

Cooperation of Central Banks

The high priests of international finance considered the cooperation of central banks an essential part of their plans to create a private, global banking system. Informal attempts at cooperation have been underway for years prior to the establishment of the BIS, however, none of them resulted in a systematic integration of various nation-states monetary systems. Resolutions had even been passed at such international gatherings as the Geneva Conference of 1922. The Conference recommended as a matter of official policy that directors of central banks should convene regularly. Prior to 1930, the officials of the world's central banks met secretly in various cities throughout Europe.

Creation of the BIS

The BIS was conceived in Paris by the Young Conference in 1929. It was architecturally designed at Baden-Baden by a consortium of banking experts in less than six weeks and officially adopted in January of 1930 at The Hague by the governments of Europe and Japan.

Promoting the Cooperation of Central Banks

According to its official statutes, the BIS has three main functions. Article 3 states it is "to promote the cooperation of central banks and to provide additional facilities for international financial operations; and to act as trustee or agent in regard to international financial settlement entrusted to it under agreements with the parties concerned." (*The Bank for International Settlements and the Basle Meetings*. Official document. Basle, Switzerland, May 1930, p. 125.)

The Birth of the BIS

It appears that the bankers used the war reparation issue to construct an international organization designed to further their global financial and economic plans. Leon Fraser outlines the birth of the BIS as follows:

"When the Young Committee gave their reasons for constituting a new banking institution of an international character – a proposal by no means novel – they pointed out that the reparation problem on which they were working was primarily financial in its nature and involved the performance of banking functions at several points in the sequence between Germany's initial payments of the proposed annuities and the final distribution of the funds to the receiving powers. It seemed to them logical, then, that this financial administration be confided to a non-political organization to be created under international sanction, and incidentally empowered to carry out other functions helpful to the world's financial well-being. The Committee said:

"In the natural course of development, it is to be expected that the Bank will in time become an organization, not simply, or even predominantly, concerned with the handling of reparations, but also with furnishings to the world of international commerce and finance important facilities hitherto lacking. Especially it is to be hoped that it will become an increasingly close and valuable link in the cooperation of Central Banking institutions generally – a cooperation essential to the continuing stability of the world's credit structure.

"The truth may now be told. There was no imperative need to constitute a bank with a capital of \$500,000,000 gold Swiss francs to be guided by a large Board of Directors, made up of all the Governors of the leading central banks of the world and of outstanding personalities appointed by them, who were directed to abandon their normal posts in order to meet at the seat of the Bank 'at least ten times a year' – all for the mere purpose of receiving and distributing the expected German annuities. Far larger payments than those contemplated had been regularly received and efficiently distributed by the Agent General for Reparation Payments, operating through a compact and economical organization. The truth was that the experts seized the occasion of the new reparation adjustment as an excuse to repair a long recognized gap in the international financial fabric. The organization which they proposed had functions not connected with reparations, and these ostensibly secondary functions were, in the inner consciousness of the originators, the predominating motives for its establishment. By some of the members – in particular those connected with commercial banking – the institution was envisaged as an instrument for opening up new fields of world trade by means of fresh extensions of credit. The German experts were especially favorable to this conception, because an increasing world commerce and more abundant credit would tend to lighten the reparation burden; whereas, if the Bank did not in fact contribute to such expansion, that eventuality would offer a basis which Germany could seize upon to reopen the reparation agreements, which she at no time considered just. While there was no unanimity about the opportuneness of creating more credit, all the experts agreed that the Bank could fill one obvious hiatus in the financial organization of the world, namely provide a center for central bank collaboration and for cooperation to improve the international monetary mechanism..." ("The International Bank and Its Future," *Foreign Affairs*, Vol. 14. April 1936, pp. 453-54.)

The Main Functions of the BIS

The main functions of the BIS were outlined by George P. Auld of Haskins and Sells, (New York), and former Accountant-General of the Reparation Commission.

"Turning to the broader aspects of the Bank's purposes and powers, we find that they include, in particular, the right to receive deposits from central banks and others and make deposits with central banks, to grant loans to or borrow from central banks on security, to discount or rediscount short-term obligations of prime

liquidity, to make investments in negotiable securities, to buy and sell gold and exchange, and hold gold in custody for central banks. The Bank is also empowered to act as agent for any central bank and to arrange for any central bank to act as its agent.

"This grant of powers, together with collateral questions, has provoked intense controversy. But the plan, with some modifications, has gone ahead to final adoption without its authors feeling it necessary to rally to its defense. The fact is, the scheme has great inherent strength and carrying power. For in spite of a certain vagueness in the minds of students as to precisely what the Bank will do in practice, it is widely recognized that the increasing closeness and complexity of international money market relationships require systematic cooperation between central banks; and there is general belief that no judgment as to the effective means of securing such cooperation could be more competent or responsible than the combined judgment of the central banks themselves. The important fact in this connection is that the Young Committee had as its chairman a director of the Federal Reserve Bank of New York and included in its membership two directors of the Bank of England, the head of the Reichsbank and the head of the Bank of France.

Further Advances in Central Banking Dependent Upon Solidarity of World Opinion

"These men or their associates, with Mr. McGarrah and Mr. Fraser, will have a predominating part in administering the BIS. IT is apparent from the report of the Young Committee and subsequent expressions by individual members of it that they had a certain vision of a wide ultimate usefulness of the Bank in the international centralization of reserves, the creation of a gold settlement fund, the development of world trade and the stabilization of prices. It is equally apparent, however, that they expect the realization of these ends to come about only in natural course, when further advances in the art of central banking and an increasing solidarity of world opinion may make them possible.

"The ends held immediately in view were much less spectacular. These ends were the creation in corporate form of a laboratory for the development of the art of central banking, and a clearing house for the exchange of information and counsel, and, more concretely, the establishment of a capital fund for the purpose of extending emergency credits to the central banks of countries requiring assistance in restoring the gold standard or in supporting it in times of temporary strain. The extension of such credits as necessary will constitute an organized method of executing the same kind of service as that performed over the past decade by specially arranged consortiums of central banks, in which the Bank of England and on several occasions our Federal Reserve system have taken a leading part." ("The International Bank and the Reparations Settlement," *Official Report of*

the Seventeenth National Foreign Trade Convention, Los Angeles, California, May 21-23, 1930, pp. 23-24.)

Developing the Art of Central Banking

Harmonization of internal national economic policies has long been a goal of the international bankers. With the establishment of the BIS it appeared that their years of planning and struggle were finally beginning to bear fruit. As noted above, the BIS was to serve as a "laboratory for the development of the art of central banking." This was not its only purpose as pointed out by Leon Fraser. The bankers had bigger plans for the BIS than they liked to admit publicly. However, the elite outlined part of their future plans in an enthusiastic speech in London before the Institute of Bankers. His name was Sir Charles Addis, a Director of the Bank of England and member of the Board of Directors of the newly-created BIS. Like Leon Fraser, Sir Charles Addis admitted openly that the reparations issue was a convenient excuse for the bankers to create a new international bank. He stated that: "...It is, of course, true in a sense to describe the new Bank as a Reparations Bank, since one of the primary, although not, I think, the most important of the functions it is expected to fulfill, is to collect and distribute the German annuities. But, as I have said, that is not its most important function, and I should myself prefer to say that the development of Reparations was the occasion rather than the cause of its inception." ("The Bank for International Settlements," *Journal of the Institute of Bankers*. Blades, East and Blades, London, 1930, Vol. 3, p. 236.)

The Future Plans of the BIS

Sir Charles Addis outlined the creation and future plans for the BIS as follows: "The stage was now cleared for the entry on the scene of the Bank for International Settlements. It is arguable that the necessity for such an institution, which had long been felt, would have led to its creation by the Central Banks even if no problem of reparations had intervened. However that may be, the governing fact was that unless the astronomical indemnity figures of the early post-war period had been reduced to an amount more in keeping with the economic facts of the situation, it would have been impossible for any financial institution to undertake the machinery of reparations or for the Powers to achieve their policy of removing its from the political to the commercial sphere. Perhaps the fairest way to apportion the honor of paternity would be to say that if the Creditor Powers may claim to be the "only begetters" of the Bank for International Settlements, it was the Central Banks which brought it to birth.

"The Committee appointed to organize the new Bank was composed of fourteen members appointed by the Central Banks of the seven principal Creditor Powers, Great Britain, France, Belgium, Italy, Germany, Japan and the United States. They met in Baden-Baden on October 3rd, 1929, and continued in session for a period of six weeks.

Deciding Where to Locate the BIS

"The most formidable difficulty with which the Committee was confronted at the outset was to decide where the Bank should be located. There were many rival candidates in the field, although, in the eyes of the British Delegates at any rate, the claims of London to that honor far out-distanced all others. The geographical position of London as a center of world trade was unique. As an instrument of credit the London bill had no rival. There was a discount market, highly organized and developed, and a technical equipment unsurpassed for transacting foreign exchange. Nearly three-quarters of the annual gold production of the world was supplied within the confines of the British Empire. Unequivocal proof of the determination of the British people to preserve, no matter at what sacrifice, the integrity of their currency system had recently been afforded by a costly return to the gold standard at pre-war parity. The London bullion market was notoriously free and open to all comers. Above all, London had long enjoyed the premier position as the exponent of a high tradition of honorable dealing in international trade and of probity in international finances. If the selection were to be determined, as it should have been, by the advantages which London offered for the exercise of the duties the Bank was destined to perform there could have been no doubt as to the result. As it was, it was just these advantages which proved our undoing. It was the fear of adding to the acknowledged predominance of London as the financial center of the world, the prestige of setting up the new International Bank in its midst, which, I am persuaded, finally united the Continental opposition to our proposal. Personally, I doubt if the expected prestige would have been of much account so far as London was concerned, and I am disposed to think that more importance was attached to that aspect of the question than it deserved. The operations of the Bank will in fact be attracted to the cheapest and most convenient market, quite irrespective of where its registered offices may be, and, fortified by their belief that London is still the cheapest and most efficient international money market in the world, the British Delegates accepted their defeat with a tranquil mind, and readily assented to a compromise by which their second choice, Basle, Switzerland, was finally selected as the seat of the new Bank. Provision is made for opening Agencies in other centers, provided the Central Bank concerned does not object.

Determining the Scope of the BIS

"A second and scarcely less formidable difficulty, with which the Committee was faced at the beginning of their deliberations, was to determine the scope of the Bank's activities. How was it to be a free and independent agent and to what extent was it to be subject to Government control?

"It was naturally the aim of the Baden-Baden Committee, composed as it was of bankers, to provide the Bank with complete freedom of administration and to exclude as far as possible any political interference with its procedure. But this at

once gave rise to a very difficult question. What was to be the ultimate sanction for this freedom, and what bounds were to be set to it? It was right and proper that, in virtue of the powers and authority delegated to it, the Bank should enjoy complete freedom in administration, but that did not and could not mean that the Governments concerned, to whom it owed its being, were prepared to surrender their sovereign rights or to devolve upon a supernational institution with extensive powers of finance and not subject to any specific authority, the ultimate responsibility, which must always be a government responsibility, for the credit and currency policies of their respective countries. The problem was how to reconcile the freedom and independence of managements, indispensable for the successful working of any financial institution, with that degree of Government interference and control which in the last resort is inseparable from the assertion by any Government of its sovereign rights.

"The difficulty was solved by dividing the Statutes into two sections:

"Of the sixty articles, forty-seven are regarded as administrative, and the Board of the Banks are free, by a two-thirds majority, to alter them as and when they please. The remaining thirteen articles of the Statutes which deal with the objects of the Bank, the composition of the Board, the exercise of the right of veto, etc., are regarded as constitutional and cannot be altered until the change has been proposed by a two-thirds majority of the Board, confirmed by a General Meeting, and sanctioned by a fresh Swiss law, supplementing the Charter of the Bank, for which the agreement of the Governments signatory to the Treaty authorizing the Charter is required. It is important to note that it is open to the Governments, as well as to the Bank, to initiate a proposal to alter or modify the constitution of the Bank, if it should become necessary at some future time to adapt it to novel or changed conditions. The balance between the rival claims of free banking and governmental authority has, it is hoped, been so adjusted as to allay the fears of those who see in the new Bank either an instrument of organized political tyranny or of unbridled cosmopolitan finance, and, on the other hand, by providing sufficient elasticity, to meet the objection of those who fear that the activities of the Bank may be paralyzed by a too rigid constitution. ("The Bank of International Settlements," *Journal of the Institute of Bankers*. London: Blades, East and Blades, 1930, Vol. 3, pp. 238-40.)

The Role of the Board of Directors

Concerning the Board of Directors, Sir Charles Addis noted: "In framing the constitution of the Board of Directors, the underlying idea was to provide for that closer and more intimate collaboration between bankers and men of business which the Committee believe to be essential, in these times of industrial depression and financial uncertainty if we are to stem the flowing tide of unemployment and find a solution for these monetary problems which lie at the root of most of our economic troubles. It was considerations of this kind which were ever present in

the minds of those who at Baden-Baden were entrusted with the task of drawing up the constitution of the new Bank. Accordingly, the Board of the Bank is composed of the Governors of the seven Central Banks of Belgium, France, Germany, Great Britain, Italy, Japan and the United States, and of seven representatives of finance, industry or commerce of the same nationality as the Governors who appoint them. France and Germany are each entitled to have an additional representative of industry and commerce so long as Reparations payments continue. The Governors of Central Banks of countries other than the original seven, who have subscribed capital during the time of incorporation, may each submit a list of four candidates for directorship, two of which shall be representative of finance and the other two of industry or commerce. From these lists the Board may elect, by a two-thirds majority, not more than nine persons. The full Board will thus be composed of twenty-five Directors. There shall be not less than meetings a year, of which four shall be held at Basle. The remaining six may be held at other centers as many be found convenient. The Board elects from among its members the President of the Bank, who holds office for three years, but is eligible for re-election. The Chief Executive Officer, or General Manager of the Bank, is appointed by the Board of the proposal of the President. Power is also given to appoint an Executive Committee, to assist the President, and other Advisory Committees. The latter may be chosen wholly or partly from persons not concerned in the management of the Bank. It is also the duty of the Board, upon a declaration by Germany of a postponement of transfer, to convene the Special Advisory Committee as provided in the plan." (*Ibid.*, pp. 241-42.)

The Objectives of the BIS

Addis proceeded to next outline the objects of the Bank: "In explaining the objects of the new Bank it may be convenient to begin with the negative clauses. The Bank may not issue notes or accept bills of exchange. It may not make advances to Governments or open current accounts in their name. It may not acquire a predominant interest in any business concern or hold property except so far as may be necessary for the conduct of its business. It may not operate for its own accounts in currencies which do not satisfy the practical requirements of the gold or gold exchange standard. It may not enter into any banking operation which conflicts with the monetary policy of Central Banks. Any operation proposed by or on behalf of the Bank on a given market or in a given currency may be vetoed by the Central Bank concerned. This power of veto is, however, limited by the stipulation that the article is not to be read as requiring the assent of any Central Bank to the withdrawal from its market of funds to the introduction of which no objection had been raised by it at the time.

"It may appear at first sight as if the effect of this formidable list of inhibitory clauses must be to reduce to sterility the Banks' capacity for initiative, and particularly its capacity to make profits. When the Statutes, however, are read as a whole, there would appear to be no substance in this objection. If we place positive

and negative clauses in juxtaposition, as in a Kantian category, we shall find that sufficient freedom of action has been preserved for all normal banking purposes. The Bank may not issue notes, but it can buy and sell and ear-mark gold. If it is prohibited from making an advance to a Government, there is still nothing to prevent it from buying its Treasury Bills if currently marketable, or lending money to its Agent, the Central Bank. The Bank for International Settlements may not accept bills, but it can discount them. It may not deal in other than gold or gold exchange currencies for its own account, but it can do so for account of others, whether banks, firms or individuals, so long as the Central Bank does not object.

A Super Central Bank

"In fine, the general intention of the restrictions is not so much to restrain the operations of the Bank, as to ensure that they shall be confined to transactions through or with the consent of the Central Banks. Its chief function is to act as a center of cooperation for Central Banks. That is, perhaps, why the Bank for International Settlements has been occasionally referred to as a Super-Central Bank. As a description that seems to me to involve a misunderstanding of its constitution. No doubt it is extremely difficult, as we found when we tried it at Baden-Baden, to define what a Central Bank is. But if its distinguishing marks are, as commonly recognized, the right of note issue, the obligation of acting as the fiscal agent of its Government and the custodian of its funds, of regulating by changes in its rate of discount and other means the supply of credit and the volume of internal currency, and of preventing any depreciation of its external value, as measured by the foreign exchanges, by maintaining a reserve of gold sufficient to meet any unexpected drain, then it must be said at once that the Bank for International Settlements answers to none of these tests. It owes allegiance to no single Government, and is forbidden to open a current account for any one of them. It has no right of note issue. It has no currency system of its own to protect, and is not, therefore, obliged to keep a reserve for that purpose. It is a unique creation. There has never been anything like it in the world before. It will be, in fact, what its Managers contrive to make of it. We shall have to wait for a complete definition of the Bank for International Settlements until we see how it works. For the present we must content ourselves by saying that in its initial phase the Bank is a cooperative undertaking of the Central Banks of the Reparations countries with a limited participation granted to the Central Banks of other countries, in fact, a center, a rallying point for Central Banks.

"In addition to its statutory functions the Bank has entered into an Agreement with the Governments of the Creditor Powers to take over the duties of the Agent General for Reparations and to act as their sole Trustee for the collection and distribution of the German Annuities." (*Ibid.*, pp. 252-254.)

Close Cooperation of Central Banks

In a section entitled "Cooperation with Central Banks," Sir Addis proceeded to make one of the most open admissions ever made by the international bankers. He wrote:

"The next, and perhaps, as I have said, the most important, function of the Bank is to promote the cooperation of Central Banks, a cooperation which the Committee believe to be essential to the continued stability of the world's credit structure. I have said to *promote* cooperation, because, of course, cooperation already exists. The difference is that the Governors of the principal Central Banks will now meet together regularly, and as a matter of course in their capacity as Directors at the monthly Board Meetings of the Bank, without attracting the undue publicity or the tendentious rumors and reports to which the occasional and sporadic visit of Governor to Governor inevitably gave rise. It is difficult to exaggerate the value of the opportunities which these meetings will afford for the personal touch, for the exchange of information about the conditions of their respective markets, for the interplay of ideas, for exploring the whole field of international credit and finance, for weighing the relative advantages of the various schemes submitted to them for the exploitation of undeveloped or imperfectly developed countries, and for examining the feasibility or the expediency of adopting a common policy and devising concerted measures in order to avert or to mitigate the dangers which may be threatening the stability of the European currencies or of any one of them. I confess for myself that it is in this direction that I anticipate the most salutary results from the future development of the Bank for International Settlements. It is possible to see in it the promise of a financial association with the League of Nations, which, under wise and prudent management may blossom into a powerful adjunct for the preservation of international peace. If so, it will be in harmony with the spirit of the age, which is coming to recognize more and more that the destinies of man are being molded by silent economic forces which it is folly to resist, and that it is only by acting with and not against them that he can hope to advance his fortunes. I shall be disappointed if the Bank of International Settlements fails to be administered in such a spirit as to demonstrate to the world that its primary function is not to make profits, but, by the substitution of cooperation for competition in international affairs, to prove, what is indeed the truth, that no nation, any more than an individual can live to itself alone, that the comity of nations means nothing if it does not mean a common family in which when one member suffers all the others suffer with it." (*Ibid.*, pp. 245-246.)

Governing the Actions of Central Banks

It appears that not all the bankers were in agreement on various policies. One way to bring rebellious bankers into line was to develop an international institution

to govern their actions and bring harmony and unity to the system. Sir Charles Addis counseled the banking group with these somewhat startling words:

"For such an adventure surely the time is ripe. For in truth the world of finance is out of joint. I remember at the Genoa Conference in 1922, when a resolution was passed stating that those countries would deserve well of the world who decided to adopt the gold exchange standard at about the level of prices then current. The resolution was adopted unanimously, but not before the French and then the Italian delegates rose to their feet and declared that nothing but a return to the prewar parity would satisfy the prestige of their respective countries. Well, the whirligig of time has brought about its revenges. But old prejudices are hard to eradicate. Gold has been generally withdrawn from circulation, but the countries which were driven by the logic of events to adopt the gold exchange standard, had no sooner stabilized their currencies than they set about converting their foreign division into gold and drawing the gold back into their vaults. The scramble is the same thing, the downward trend of prices, which has become a serious menace and, if allowed to go on unheeded, must inevitably check enterprise and retard economic recovery.

"I admit, of course, that the relative advantage of low prices for an industrial country like Great Britain is an arguable proposition. But the argument is not really relevant to the present issue. What we are suffering from now is not low prices but falling prices. It is not the low level, but the persistent fall which is crippling industry and taking the heart out of the business pioneer. During the last five years prices have fallen by 25 per cent, and of a check to the fall there is as yet little sign. Indeed, the rate of decline last year was higher than in any of the preceding years under review. Various explanations have been advanced to account for this untoward phenomenon, and no doubt several causal agencies have been at work. But it is indisputable that one of them is the monetary factor, and it is with this particular cause that Central Banks are directly concerned. In so far as the persistent fall in prices is due to monetary causes, to some maladjustment of the international monetary machine for whose efficient working the Central Banks *are* responsible, it will not avail them to plead that other causes are at work for which they are *not* responsible.

"There has been so much confusion of thought on this subject, on the extent to which banks can stabilize prices, or, to make use of the phraseology of the famous Genoa Resolution of 1922, 'prevent undue fluctuations in the value of gold,' that I may be permitted a slight digression in order to indicate what was in the Committee's mind on this point.

The Power of an Institution Like the BIS Has Never Been Tested

"Price, of course, is a variable of two functions, supply and demand. Now, I am far from asserting that the monetary is always the dominating factor, or from denying that there are other than monetary causes at work which may at times

render the Banks powerless to affect materially the course of prices. But I do assert that the monetary factor, even if not always dominant, is always present and, for good or ill, has to be dealt with. It is not a question of choice. You cannot leave it alone. Consciously or unconsciously money is always being managed, and to say that you cannot do much to control it is no excuse for doing nothing at all. It is unwise to neglect forces, the strength of which you are unable to measure. The power of Central Banks in cooperation on the scale contemplated in the formation of the Bank for International Settlements, has never yet been put to the test.

"The problem can be simply stated. It is how to adjust the supply of monetary gold to the demand in such a way as to maintain the value of gold at an approximately stable level.

"Now, on the side of supply we know, through the researches of Mr. Kitchin, that the total stock was increased by the production of new gold at the rate of 3 per cent per annum for a period of over half-a-century, from 1851 to 1907. And, since the value of an ounce of gold was the same in 1907 as in 1851, it follows that the demand for gold must also have increased during that period by 3 per cent.

"It is not, of course, certain, but it is exceedingly unlikely that this rate of increase in the supply of gold can be maintained. A mine is a wasting asset. The life of the average gold mine is about twenty years, and it would be foolish to trust a repetition of the great gold discoveries of the '50's in California, or in Australia and Canada in the '90's. It is more difficult to set a limit to the progress of scientific discovery, but it is now possible by the cyanide process to extract something like 97 per cent of pure gold from the ore, so that, unless we light upon the philosopher's stone, the hope of accomplishing by any application of science a material increase in the annual production of gold would appear to be remote.

"On the demand side the rate of increase has been shown to coincide with that of the supply of gold at about 3 per cent per annum. This, of course, may be a mere coincidence, but it seems difficult to dissociate *some* rise in demand from an increase in world population.

"The conclusion is inevitable. Given a decreasing supply of gold and an increasing, or even a stationary demand, then prices must continue to fall with all the consequences to trade and unemployment which that may involve.

Ways the BIS May Assist Central Banks

"What then is to be done? Obviously we must economize in the use of gold. And here the Bank for International Settlements can come to the help of the Central Banks. It can hold balances, as reserves for their note issues or deposit liabilities, which may be regarded as the equivalent of gold, since it is only in gold currencies that the Bank will deal. It is for that reason that the Bank is not required to hold any gold reserves of its own. It has no currency of its own to protect and its

deposits will in fact be covered, not by forty or fifty, but by a hundred per cent or more of liquid assets. The Bank has no power of note issue, and can only re-distribute existing credit. It cannot by itself create credit, but it can do so through Central Banks. It may be objected that this may lead to inflation, but, after the powerful dose of deflation from which we are still suffering, there is no need for any one to be alarmed into a panic if a moderate dose of temporary inflation should be applied by the Board, by way of what the doctors used to call an alternative. We need have no fear that there is any danger of inflation being carried too far in the hands of the Governors of the Central Banks on the Board of the Bank for International Settlements. (*Ibid.*, pp. 246-248.)

Plans for a Global Currency Laid in the 1930s

If anyone doubts that the bankers were not planning or thinking about an international reserve currency similar to the Special Drawing Rights (SDR) of the International Monetary Fund, the following admission lays any suspicion to rest. Sir Addis openly admits that such a currency was indeed in the planning state in 1930. He said:

"As regards to the future, if you care to give wings to your fancy and let it roam, you may like to look forward to a financial Utopia, when the cumbrous and costly physical transfer of gold will no longer be necessary. A debit and credit entry in the books of the Bank will be all that is required. Nor need your imagination stop there. It is at least theoretically possible that a time may come when, the elements of freight and insurance having been eliminated, the gold points of export and import, between which the rates of exchange oscillate round parity, will tend to draw more closely together until they finally merge in an international unit, not of money but of account; when the dealers in foreign exchange will cry out, like the artificers in the temple at Ephesus, that their craft is in danger of coming to naught, because the Bank for International Settlements is prepared to make transfers of the new international unit to or from any part of the world at par, just as the Federal Reserve Bank transfers the American dollar at par to any part of the United States.

"Banking is one of the most imaginative of all the professions, and with such an audience it is tempting to linger over the possible future developments of the Bank for International Settlements. But I must guard myself against the supposition that I am advocating any one of them. There is much to be said for the utility of separate gold points as a shock-absorber for sudden or abrupt changes in the level of prices. And for my part I should be loth to abandon the physical transfer of gold, as part of the automatic working of the gold standard, unless I were satisfied that the equivalent entries in the books of the Bank for International Settlements would be given such publicity as to ensure that the invisible book entries would exercise the same effect upon the mentality of the money markets as the visible movements of gold.

A Review of Progress

"And now after this fanciful glimpse into a future Utopia, let us cast a sober backward glance on the path we have already trod.

"The gestation of the Bank for International Settlements has been a long and at times a painful process. If the result has not quite come up to our expectations we must remember that there were the conflicting interests of many different countries and races to be adjusted. To find a common measure for the claims of several national Conferences are a clumsy and unwieldy instrument for such a purpose. But until we can devise a better method do not let us underrate their educational value. It is not those who have had most experience of them who will be prepared to admit that a Conference is a vain thing. In my experience each Conference has marked an advance upon its predecessor. It is misunderstanding and misrepresentation which keep the nations aloof and suspicious. And the remedy is not far to seek. To misunderstanding we must oppose frankness, and, as for misrepresentation, if only we are sincere we can live it down. It is in personal intercourse that foreign delegates learn to know each other (and through them the peoples they represent), to appreciate different points of view, to make allowances for national distinctions and in all sincerity to seek the underlying unity in racial diversity. The best was reserved for the last. The second Hague Conference, when eighteen different nations, Germany included, agreed to liquidate the heritage of war and to make a final and complete settlement of the problem of Reparations, will, I believe, rank in history as one of the highest achievements of the new International spirit.

"I remember one night at the close of an exhausting day at Paris, when Mr. Owen Young turned to me and said with a weary smile, 'I wonder if any of us will live long enough to look back upon these days with pleasure.' Pleasure, perhaps, it is too much to expect, but I do not envy the man who does not already look back upon those days with a feeling of deep and abiding thankfulness that he was privileged to sit down with his quondam enemies in a common effort to efface for ever the memory of war's bitter leaven, and to establish international good will and mutual understanding as the fairest fruits of victory and the foundations of a lasting peace." (*Ibid.*, pp. 248-249.)

A Tremendous Amount of Power Has Been Accumulated by International Bankers

The revelations of Sir Addis are startling to someone unfamiliar with the long-range goals of the international bankers as outlined by Carroll Quigley. They do attest to the tremendous amount of economic and financial power that had been accumulated by 1930 by the bankers throughout the world. Sir Addis was illuminating as well as cautioning the bankers when he stated:

"...the destinies of man are being molded by silent economic forces [international bankers] which it is folly to resist, and that it is only by acting with and not against them [international bankers] that he can hope to advance his fortunes...."

"It is unwise to neglect forces, the strength of which you are unable to measure...." (*Ibid.*, pp. 245-247.)

A Friendly Warning to the Banking Community

It was a friendly warning to bankers to quietly accept the international banking system which was unfolding and to promote its acceptance among the people of the world.

A Secret Goal of the Bankers

It is also interesting to note that Sir Addis admitted that at least one goal of the bankers was to create an international bookkeeping reserve asset. Charles R. Hargrove expressed the view that this indeed was a secret goal of the bankers when he explained:

"Behind...article [23] lies a deal of thought and ingenuity, before it a vast field of possible development, extending even to the establishment in the remote future of an international unit of currency...." ("The World's Biggest Banking Experiment," *Barron's*, Vol. I, February 24, 1930.)

Harmonization of Central Banking Policies

The BIS wasted no time in convening its now famous "Basle Meetings." According to G. Glasgow, the central bankers began harmonizing policy at its first meeting:

"It is an open secret that the simultaneous reduction in the bank rates of London, New York, Paris, and Brussels, that took place in the first week of May 1930 was the result of an agreed policy reached by the Governors of the Central Banks at the first meeting of the International Bank, which took place at Basle the week before." (April 22nd and 23rd.) ("A New Factor in International Finance," *Contemporary Review*, June 1930, p. 784.)

The Basle Meetings have been convened since 1930 and coordination of central bank policies throughout the Western World has now become a science.

The Relation of the Federal Reserve System and the BIS

The U.S. Government and the Federal Reserve decided not to officially participate in the Basle Meetings until 1960. J. P. Morgan and Company, the First

National Bank of New York, and the First National Bank of Chicago, arranged for the United States guarantee of subscription to the new international institution. George P. Auld pointed out the relation of the BIS and the Federal Reserve System when it was first established in these words:

"Our Reserve banks will not participate in this institution. The original announcement of this policy by the Secretary of State placed the decision on the understandable ground that 'this government does not desire to have an American official, directly or indirectly, participate in the collection of German reparations through the agency of this bank or otherwise.

"Other grounds of opposition to the participation of our Reserve Banks have been expressed by certain commentators. These are based largely on fears of undue European influence in the determination of Federal Reserve discount rates and credit policies. Such a view does scant justice to the intellectual and moral calibre of our banking authorities. It is, moreover, founded on a too commonly accepted fallacy that what is good for Europe is bad for us.

"The dangers foreseen by those who accept this view are supposed to be connected with the practice of lowering our rediscount rate to ease the strain on the European exchanges. The classic example cited is the lowering of the rate in 1927, followed as it was by the great upswing of our stock market. But the lowering of the rate on that occasion, as would always be the case, had a dual purpose, which was not only to strengthen the European exchanges, but also and thereby to stimulate our own exports and industry generally.

"That this cheapening of money also caused the bull market is highly dubious economic reasoning; for subsequent experience showed that high interest rates could not dampen the enthusiasm of a speculation-crazed public. The bull market was born of a spectacular industrial expansion, it fed on the cupidity and self-delusion of a vast new army of speculators, and, while the mania persisted, it was of itself a major economic force that could not be denied. Money rates did not make the bull market; on the contrary, the bull market made money rates.

"Though our Reserve system will not participate in the new bank, cooperation with the bank and its central bank members in the matter of money rates and otherwise will still be necessary. The economic facts that require such cooperation will still exist. A better public understanding of those facts would effectively dispose of much ill-considered criticism of Federal Reserve policies. The broad truth is that economic forces so interlock that what is sound policy with regard to our foreign trade and investment interests is also sound policy with regard to our domestic affairs." ("The International Bank and the Reparations Settlement," Official Report of the Seventeenth National Foreign Trade Convention, Los Angeles, California, May 21-23, 1930, p. 27.)

The Organization Structure of the BIS

The stage was thus set for official cooperation between the central banks of the Western nations. Now that we have discussed the origin and intended purpose of the BIS, let us look at its organizational structure and various activities which it has conducted since its inception. An official document of the BIS states:

"...of the twenty-nine institutions represented at the BIS General Meeting, twenty-four are European central banks. Apart from the central banks of the USSR, the GDR and Albania, all European central banks – including those of the other socialist countries – are members of the BIS. The geographical distribution of its five non-European members is world-wide (United States, Canada, Japan, Australia, South Africa).

"The BIS has three organs of administration: the General Meeting, the Board of Directors and the Management. The General Meeting is held annually on the second Monday in June. The Board of Directors is responsible for the conduct of the Bank's operations at the highest level. It is composed of the Governors in office of the central banks of Belgium, France, Germany, Italy and the United Kingdom as so-called *ex officio* members and up to five representatives of finance, industry or commerce, appointed one each by the Governors of the above-mentioned central banks. The United States, although regularly represented in Basle, does not occupy the two seats on the Board of Directors to which it is entitled under the Statutes. The Statutes also provide that the 'nucleus' of a maximum of ten Directors may elect other persons as 'co-opted' Directors from among the Governors of those member central banks that do not have an *ex officio* representative on the Board. At present, the Governors of the central banks of the Netherlands, Sweden and Switzerland are co-opted members. The Board of Directors elects a Chairman from among its members and appoints the President of the Bank. Since the end of the Second World War the two offices have been vested in one person. They are currently held by Dr. Jelle Zijlstra, the Governor of the Netherlands Bank.

"Since its foundation the BIS has endeavored, with success, to keep its body of staff small; even today its employees number only about 300.

Banking Operations of the BIS

"1. *Banking Operations.* The guiding principle that must be observed by the BIS in its banking operations is laid down in Article 19 of its Statutes, which states that: 'The operations of the Bank shall be in conformity with the monetary policy of the central banks of the countries concerned.' Any transactions which the BIS is authorized to carry out with central banks may also be carried out with banks, companies, or individuals provided that the central bank of the country concerned does not object. The Bank is not permitted to make advances to governments or open current accounts in their name. Real estate transactions are also excluded.

"The activities of the Banking Department of the BIS are based on normal banking principles. The liabilities side of the balance sheet shows the deposit business, i.e., the receipt of funds from customers, particularly from central banks, and on the assets side figure loans and investments, i.e., the utilization of deposits.

"Because the central banks' monetary reserves must be available at short notice, they can only be placed with the BIS at short term, for fixed periods, and with clearly defined repayment terms. The BIS has to match its assets to the maturity structure and nature of its commitments, and therefore conduct its business with special regard to maintaining a high degree of liquidity.

"The BIS uses the funds received from central banks partly for lending to other central banks. Its credit transactions may take the form of swaps against gold, covered credits secured by means of a pledge of gold or marketable short-term securities, credits against gold or currency deposits of the same amount and for the same duration held with the BIS, unsecured credits in the form of advanced or deposits, stand-by credits, and so on. Combinations of these different types of credit also occur.

"However, the BIS also engages in traditional types of investment: funds not required for lending to central banks are placed in the market. Here the BIS draws largely on the services of first-class commercial banks. The main forms of investment include deposits with commercial banks and purchases of short-term negotiable paper, including Treasury bills. These operations today constitute a major segment of the Bank's business.

A Forum for Monetary Cooperation

"2. *The BIS as a forum for monetary cooperation.* Ten times a year the Governors of important member central banks and representatives of international institutions meet at the Bank for discussions on current monetary policy matters. As central banks of eastern European countries also count among its members, the BIS is, in addition, a forum for contacts between East and West.

"On many occasions the Basle meetings have resulted in important monetary policy moves being undertaken by the central banks. This was particularly true of the period between 1960 and 1971, which was marked by recurrent waves of speculation against a number of different currencies under the system of fixed exchange rates than in operation. The groundwork for the support operations undertaken during that period on behalf of currencies under attack was generally laid in Basle at the monthly meetings of the central bank Governors. Looking at the more recent past, special mention may be made of a central bank monetary policy move in which the BIS played a role: in January 1977, with the backing of eleven central banks, it extended a \$3 billion medium-term facility to the Bank of England which the United Kingdom could utilize for the purpose of attaining an orderly reduction in the role of sterling as a reserve currency. Close cooperations to

maintain orderly international monetary relations interlink meaningfully with those of the IMF and supplement one another.

"In addition, the gold pool, which existed from 1961 to 1968, operated on the basis of directives formulated and issued in Basle by the central bank Governors of the Group of Ten. The network of swap arrangements which the Federal Reserve Bank of New York maintains with a number of central banks and the BIS also dates back to agreements reached in 1962 within the framework of the BIS. The object of these arrangements is to enable a central bank to obtain, in exchange for its own currency, the currencies of other central banks for interventions in the exchange market. At the end of 1962 the swap network amounted to \$900 million. It has now reached a total of about \$30 billion, with the BIS participation amounting to \$1.85 billion.

Defense of the System of Fixed Exchange Rates

"The general change-over to floating exchange rates in March 1973 gave a new orientation to international monetary cooperation. Until then the object of cooperation had consisted largely in defending the system of fixed exchange rates. The monetary authorities have now been released from this obligation, but to avoid excessive fluctuations in exchange rates the central banks continue to intervene on the exchange markets under a system of managed floating, creating a fresh need for coordination. Individual countries, such as the members of the European Monetary System, have established close monetary links with each other and maintain, at least amongst themselves, a system of largely stable exchange rates relationships.

"With the first huge rise in oil prices in the autumn of 1973 and the resulting dramatic diversion of payments flows monetary cooperation was given a further role to play: monetary authorities and international financial markets were faced with the need to recycle the surpluses accruing to the oil-exporting countries. As a result of the further sharp increase in oil prices from 1979 onwards this task is still one of the main problems of international monetary policy, in the solution of which the BIS is endeavoring to play a part.

Extension of BIS Influence

"But cooperation under the umbrella of the BIS extends beyond the level of central-bank Governors. The Bank also organizes periodic meetings of central-bank experts to examine such matters as the development of the gold and foreign exchange markets and the Euro-currency market, and other economic, monetary, technical and legal questions of interest to central banks. Mention may be made, for instance, of the computer experts of the central banks of the Group of Ten countries and Switzerland, who have, inter alia, examined the question of central-bank coordination in the automation of payment transactions and who, in March 1980, published, under the aegis of the BIS, a study of payment systems in their

countries. In addition, a data bank for economic series has been developed at the Bank, which can be accessed by the central banks.

"The Bank also provides the secretariat for the Committee of Governors of the EEC central banks and for the Board of Governors of the European Monetary Cooperation Fund (EMCF). The Committee of EEC central-bank governors has, inter alia, the task of discussing the general principles and broad outlines of central-bank policy and the functioning of the money and foreign exchange markets. With the implementation of the European Monetary System in March 1979, its importance was enhanced by the need for closer convergence of the monetary policies pursued in the System's individual member countries.

Preparation of Working Documents for Central Bank Governors

"Another function of the BIS is to provide the secretariat for the subcommittees and groups of experts set up under the auspices of the Committee of Governors and the EMCF, which are normally entrusted with the preparation of working documents for the central-bank Governors. These preparatory studies enable the Governors to take decisions and present reports and opinions to the Finance Ministers of the countries of the EEC. The group concerned with the harmonization of monetary policy instruments studies the monetary objectives and experience of applying monetary policy in the member countries and examines the extent to which increasing harmonization is necessary and attainable in individual monetary policy spheres. This group also undertakes work for the Monetary Committee of the EEC. The group concerned with the development of the money supply conducts a bi-annual examination of the compatibility of the monetary policy measures applied in the EEC countries both with one another and with the joint goals.

"In addition, the BIS acts as Agent for the EMCF. In this capacity it is responsible for carrying out the financial operations connected with the settlement of balances on behalf of the EEC countries participating in the European Monetary System. It also concludes the swap operations on behalf of the EMCF under which the EEC central banks deposit 20 per cent of their gold and dollar reserves with the Fund against the issue of banks. As Agent for the EMCF the BIS likewise has responsibility for the technical administration of the EEC system of reciprocal short-term monetary support and of the transfer payments in connection with Community borrowing operations in favor of the member countries of the EEC.

A Reporting Center for Statistics on International Banking

"Since 1964 the BIS has acted as the reporting center for statistics on international banking, the purpose of which is to bring greater transparency to the Euro-currency markets; the main results of this work have been published at quarterly intervals since the beginning of 1975 (external positions in domestic and foreign currencies of banks in, at present, twelve European reporting countries and

the United States, Canada and Japan vis-a-vis all countries). Since July 1978 the Bank has also published more comprehensive half-yearly statistics on the maturity distribution of international bank lending in an endeavor to offer a clearer picture of credit risks in individual countries. These statistics include the liabilities, claims and undisbursed credit commitments of commercial banks (and some of their foreign affiliates in offshore financial centers outside Europe) in fifteen industrial countries (Austria, Belgium, Canada, Denmark, France, the Federal Republic of Germany, Ireland, Italy, Japan, Luxembourg, the Netherlands, Sweden, Switzerland, the United Kingdom and the United States) vis-a-vis third countries. The third-country coverage is worldwide, with each country being listed individually. Claims are broken down according to maturity.

A Standing Committee on the Euro-Currency Market

"A Standing Committee on the Euro-currency Market was set up at the BIS in 1971 to provide the central-bank Governors of the Group of Ten countries with information concerning the monetary policy aspects of the Euro-currency markets. This Committee concentrates primarily on the significance of the investment of foreign exchange reserves in the Euro-currency market and on the possibilities for a common central-bank policy with respect to the Euro-currency market.

"Circumstances have also prompted the central banks concerned to deal quite specifically with individual aspects of the Euro-currency markets. As long ago as 1971 they concluded an agreement not to increase their reserve holdings in the Euro-currency market either directly or via the BIS; this agreement was renewed in December 1978. Similarly, in the autumn of 1974 the central-bank Governors of the Group of Ten discussed at the BIS the problem of the lender of last resort in the Euro-markets. They were satisfied that adequate means were available and would be used if the need for liquidity assistance on these markets should arise. In April 1980 the central-bank Governors of the Group of Ten decided to instruct the Standing Committee on the Euro-market to acquaint them at least twice a year with its views on the development of the market, and thus to provide the framework for intensifying, if appropriate, cooperation on monetary policies between the countries concerned.

The Committee on Banking Regulations

"In December 1974, in the wake of the first oil crisis, the central-bank Governors of the Group of Ten countries set up the Committee on Banking Regulations and Supervisory Practices the secretariat of which is provided by the Bank, in order to coordinate banking supervision at the international level. The Committee pools information on banking supervisory regulations and surveillance systems in the individual countries, including the supervision of the banks' foreign currency business, identifies possible danger areas and proposes measures to ensure the solvency and liquidity of credit institutions.

A Trustee for New Bonds

"3. *Other responsibilities.* The Bank continues to perform the functions of Trustee for the new bonds issued by the Government of the Federal Republic of Germany in accordance with the London Agreement on German External Debts of 27th February 1953.

"A function which has now lapsed but whose influence survives in various forms of monetary cooperation is that which the BIS fulfilled in the context of the European Payments Union (1950-58) and its forerunners, the multilateral payments agreements of 1947-50. Under these clearing and credit agreements, through which the European currencies were systematically brought to convertibility, the BIS functioned as Agent and in this way played a significant role in smoothing the ground for the change-over from bilateral to a multilateral system of international payments. At the end of 1958, after the European currencies had become fully convertible, the European Payments Union was replaced by the European Monetary Agreement (EMA), a multilateral system of settlements, and the Bank assumed responsibility for the execution of all financial operations connected with this Agreement until it was terminated in 1972. It then lent its services as Agent for the application of the OECD Exchange Guarantee Agreement which was concluded in place of the EMA and continued in force until the end of 1972.

"In addition to the trustee activities already mentioned, the BIS also performs the functions of depositary for the loans secured by Act of Pledge which were issued by the European Coal and Steel Community between 1954 and 1961.

Support for the System of Multilateral Surveillance

"Moreover, since 1964 the BIS has been responsible for specific tasks associated with the system of multilateral surveillance, under which the member countries of the Group of Ten report their operations for the financing of balance-of-payments surpluses and deficits to the BIS, which communicates the overall result to each of the participants.

"In its various executive and coordinating tasks, the BIS receives strong support and stimulus from the research, particularly in the monetary field, conducted by its Monetary and Economic Department. The Department's most important regular publication is the BIS Annual Report whose analysis of monetary and economic developments and independent views have won it a widespread reputation...." ("The Bank for International Settlements: A Profile of an International Institution," Official document, Basle, Switzerland, September 1980, pp. 2-8.)

A Close Working Relationship with Other International Institutions

From the above material we see that the BIS is truly a center for research and cooperation for the central banks. The BIS is in reality a central banks' bank. In

addition to assisting the central bankers of its twenty-nine institution network, the BIS works closely with a number of other international institutions. A BIS document explains this association as follows:

"The Bank's activities in this area, which have centered on work carried out in conjunction with the OEEC and its successor the OECD, the Group of Ten and the IMF, are of two main kinds. Firstly, there is its participation in meetings of these organizations. Under this heading, for instance, came the Bank's participation in discussions of the international monetary system at meetings of the Finance Ministers and central-bank Governors of the Group of Ten and of their Deputies, of the Committee of Twenty set up by the IMF in 1972 and its successor body the Interim Committee of the Board of Governors of the IMF. Secondly, there have been the tasks undertaken by the Bank on behalf of other international organizations. These included, from 1950 until the early 1970s, its work as Agent of the OECC/OECD for the operation of the European Payments Union and, subsequently, the European Monetary Agreement. More recently, the Bank's General Manager acted as registrar for the arrangements under which, following the decision of the Interim Committee of the Board of Governors of the IMF in 1975 to abolish the official price of gold, the Group of Ten countries and Switzerland, together with the IMF, monitored gold price and gold reserve developments during 1976-78.

Relations Between the BIS and the OECD

"Relations between the BIS and the Organization for Economic Cooperation and Development (OECD), formerly the Organization for European Economic Cooperation (OEEC), date back to the origins of the OEEC. In the autumn of 1947, before the OEEC was set up, the BIS had agreed to act as Agent of most of the European governments participating in the Marshall Plan for the purpose of executing a limited compensation, or clearing, agreement, the aim of which was to take a first step away from the regime of purely bilateral payments which governed relations between virtually all the European countries in the immediate post-war period. A year later, in September 1948, the Bank agreed to act as Agent of the newly formed OEEC for the execution of Agreements for Intra-European Payments and Compensations which were linked to the distribution of Marshall aid and which represented a further step away from bilateral payments in Europe. In 1950 these agreements were superseded by the European Payments Union (EPU), which made it possible to organize a general compensation of bilateral surpluses and deficits among OEEC countries, and the Bank was then entrusted with the technical operation of the EPU, as well as the task of being its banker. During the eight and a half years of the EPU's existence gross bilateral surpluses and deficits of member countries totalled over \$23 billion, of which about three-quarters were offset against one another while the remainder was dealt with under the Union's settlement mechanism.

The European Monetary Agreement

"The EPU was terminated at the end of 1958, when all its members except Greece, Iceland and Turkey introduced current-account convertibility of their currencies for non-residents. At the same time the European Monetary Agreement (EMA) came into operation for the purpose of maintaining cooperation between the countries that had been members of the EPU. The EMA had two main features: a European Fund, to provide short-term balance-of-payments credits to member countries; and a Multilateral System of Settlements, to ensure that central banks of member countries could exchange their holdings of each other's currencies against gold or dollars at predetermined exchange rates at the end of each month. The Bank acted as Agent of the EMA, for the management of both the European Fund and the multilateral settlements system.

"The EMA was terminated at the end of 1972. During the fourteen years of its operation the cumulative total of multilateral settlement effected was slightly less than \$100 million and the total of credits granted by the European Fund amounted to \$567 million.

The OECD's Economic Policy Committee

"In addition to its functions as financial agent the BIS has participated in the work of the OEEC and subsequently the OECD through its presence at meetings of a number of their committees. In particular, the General Manager and the Economic Adviser of the Bank take part in meetings of the OECD's Economic Policy Committee (EPC) and of Working Party No. 3 of the EPC. The Economic Policy Committee, which consists of senior officials responsible for economic policy decisions in each OECD country, monitors the evolution of OECD member countries' economic situations, with particular reference to the international repercussions of national economic policies. Working Party No. 3 of the EPC is concerned with the continuing analysis of trends in international payments. This comprises both short-term developments in balances of payments and international liquidity and medium-term problems of international payments equilibrium. At meetings of Working Party No. 3 the Bank was responsible for introducing the discussions on the financing of Group of Ten countries' payments surpluses and deficits under the arrangements for multilateral surveillance (described in the following section on the Bank's relations with the Group of Ten). In addition, the Bank has from time to time presented papers to Working Party No. 3 on topics such as international liquidity and the Euro-currency market.

The Group of Ten

"The countries of the Group of Ten are those members of the International Monetary Fund that agreed in 1961 to make resources available to the Fund outside their quotas, under the terms of the Fund's General Arrangements to Borrow (GAB). They are: Belgium, Canada, France, Germany, Italy, Japan, the

Netherlands, Sweden, the United Kingdom and the United States. Switzerland, although not a member of the IMF, contributed to GAB financing operations and is effectively a member of the Group of Ten. As well as making resources available to the Fund under the GAB, the Group of Ten has since 1963 been a principle forum for the discussion of international monetary questions. The Bank has, from the outset, been a participant in all Group of Ten meetings. The Bank's General Manager takes part in meetings of the Ministers of Finance and central-bank Governors of the Group, and the Bank's Economic Adviser in those of the Ministers' and Governors' Deputies. In addition the Bank is represented on the Group's secretariat.

The Future of the International Monetary System

"In October 1963 the Ministers and central-bank Governors of the Group of Ten instructed their Deputies 'to undertake a thorough examination of the outlook for the functioning of the international monetary system and of its probable future needs for liquidity.' The Deputies' report on these matters, which was adopted by Ministers and Governors in June 1964, contained one proposal that extended the Bank's role in the work of the Group. This was that 'all countries in our Group should provide to the Bank for International Settlements statistical data bearing on the means utilized to finance surpluses or deficits on their external account. These statistical data, combined by the BIS, would be supplied confidentially to all participants and to Working Party No. 3 of OECD. Any supplementary data would be reported in such detail and form as the central-bank Governors may advise. Information would also be exchanged among central-bank Governors of the Group at the earliest practicable stage on undertakings between members of the Group for new or enlarged credit facilities, with due regard to the recognized need for flexibility in such arrangements. The data and other information would give an indication of trends, leading to a full exchange of views in Working Party No. 3 of the OECD. This would provide a basis for multilateral surveillance of the various elements of liquidity creation, with a view to avoiding excesses or shortages in the means of financing existing or anticipated surpluses and deficits in the balance of payments, and to discussing measures appropriate for each country in accordance with the general economic outlook.'

Multilateral Surveillance

"On that basis, 'multilateral surveillance' of the financing of Group of Ten countries' payments deficits and surpluses took place regularly from late 1964 onwards, at meetings of the Group of Ten Governors in Basle and of Working Party No. 3 of the OECD (a body similar in composition to the Group of Ten Deputies) in Paris. In both forums, in addition to collecting and distributing the data, the Bank was responsible for introducing discussion of them with analytical oral exposes on current developments. This procedure was continued until just before the breakdown of the Bretton Woods system; the data on which 'multilateral

surveillance' was based have continued to be circulated monthly by the Bank to Group of Ten Finance Ministries and central banks.

"Multilateral surveillance" as described above was only a small part of the work of the Group of Ten central-bank Governors during the 1960s. In fact, since the early part of that decade the meetings of central bankers at the BIS have centered around the discussions of the Group of Ten Governors and their senior officials rather than, as was earlier the case, around those of the group of eight central banks represented on the Board of the BIS. The Bank's involvement in the work of the Group of Ten central banks is of three principal kinds.

The BIS Prepares Papers on Policy Questions

"Firstly, the Bank's General Manager and its Economic Adviser attend all meetings of the Group of Ten Governors. Secondly, the Bank prepares papers on policy questions for meetings of the Governors or senior central-bank officials. These papers may relate to the problems of a particular country under discussion by the Governors, for example the various support arrangements for the pound sterling that have been negotiated, or they may deal with broader international monetary topics, such as the Euro-currency market or international liquidity. Thirdly, from time to time the Bank provides the secretariat for meetings of officials from the Group of Ten central banks.

"Finally, mention may be made in this context of the Bank's role in the arrangements operated by the Group of Ten countries and Switzerland during 1976-78 concerning their own official gold transactions. In 1976 the member countries of the International Monetary Fund decided on a Second Amendment of the Fund's Articles of Agreement that included the abolition of an official price for gold, with the consequence that Fund members were free to deal in gold at any price. The Group of Ten countries and Switzerland then entered into arrangements which, so far as they were concerned, effectively limited that freedom for a period of two years from February 1976. In the first place, they agreed to take no action to peg the price of gold; secondly, they agreed that their combined gold stock, plus that of the IMF, should not exceed the level recorded at the end of August 1975. Subsequently, Portugal acceded to the agreement. The Bank's General Manager acted as registrar for the arrangements, receiving regular reports from participating central banks and the IMF on their transactions in gold and on the level of their gold stocks. In addition, the Bank organized periodical meetings at which participants in the arrangements, including representatives of the IMF, monitored the evolution of both the market price of gold and the total gold stock of participating countries plus the IMF. These arrangements came to an end in February 1978.

The Relationship of the IMF and the BIS

"Apart from the banking operations described in Chapter II, the main focus of relations between the Bank and the IMF has been discussion on the international monetary system in committees of the Fund. From 1972 to 1974 the Bank was present as an observer at the meetings of the Committee of the Board of Governors on Reform on the International Monetary System and Related Issues (the Committee of Twenty). Since 1975 the Bank has been present as an observer at meetings of the Interim Committee of the Board of Governors on the International Monetary System. ("The Bank for International Settlements and the Basle Meetings," official document, Basle, Switzerland, 1930, pp. 60-64.)

The Central Pillars of the International Financial System

One of the main reasons the BIS cooperates so closely with central bankers and other international bodies is to further develop the emerging global financial or banking system. The BIS and IMF are central pillars in defending and upholding the banker's private system. The BIS, IMF, central banks such as the Federal Reserve, the Bank of England, etc., play the role of defenders and promoters of the banking system. The long-range goal of course is the construction of a system which embraces and controls the monetary and economic policy of every nation. As this system slowly evolves, as it is today, such organizations as just mentioned play a significant role.

For decades bankers operating through carefully selected representatives in government have cleverly developed a set of instruments designed to maintain the solvency of the banks and the banking system as well as to manage bank failures if they occur.

Maintaining the Status Quo of the Banking System

The three main instruments in the United States which maintain the status quo of the banking system are the (1) Federal Reserve System, (2) Office of the Comptroller, and (3) Federal Deposit Insurance Corporation.

Assuring That the Banking System Remains Solvent

One of the predominate functions of these instruments is to assure that the banks and the system they have devised over the centuries remain solvent. Competition is restricted by the large banks and profits are increased through such regulations as entry restrictions and interest rate ceilings. The ability of banks to engage in high-risk activities and to maintain high-risk portfolios are restricted by regulations such as capital and liquidity requirements, limits of loans to individual borrowers and limits on the types of activities in which banks may participate.

The Role of the Federal Reserve

The Federal Reserve plays the role of lender of last resort. It preserves the liquidity of the system and prevents financial panic by the public. The Federal Reserve can issue loans through its discount window or can manipulate the overall liquidity of the banking system through its open market operations. Its main role is to protect the United States banking system. It also plays a role as the stabilizer of the international banking system. It not only is designed to protect international confidence in American banks but also to promote confidence in the international banking system.

The Role of the FDIC

The FDIC is specifically designed to prevent a chain reaction of deposit withdrawals throughout the nation by insuring small depositors.

The Role of the Comptroller of the Currency

The Office of the Comptroller of the Currency enforces the rules adopted and written by the bankers through supervision and examination. Its role is to ensure that participating banks play the banking game according to carefully drafted laws designed to maintain and perpetuate the system.

A National System for Management and Crisis Prevention

The large banks have, in essence, developed a national system of instruments and laws which are designed for management and crisis prevention. It is one of the most elaborately designed systems in the world. Its purpose is simply to maintain and perpetuate a banking system where a carefully selected few, elite bankers are enriched in power and monetary gain. Over the last two centuries control over private property and real estate has been transferred from the individual owners to private banks. The system is now being remolded and enlarged so as to work on a global scale, thus assuring in the future that large banks will control not just whole nations but the entire world.

National regulatory systems have been carefully designed to prevent the insolvency of banks and the "system."

The Framework of a New International Monetary System

The national system in the United States, which includes the Federal Reserve, FDIC and Office of Comptroller of the Currency is closely allied with and connected to the BIS, IMF, other central banks, etc. They, along with the commercial banking institutions and the economic summitry process constitutes the existing international monetary system. Of course the system is currently being revamped or renovated to bring about greater convergence and harmonization of

economic policies among nations in a new system of global governance. Wilfried Futh, speaking at a Par Jacobsson Lecture in 1977, outlined the institutional framework of the new system as follows:

"International monetary policy has never been a 'one-man show,' and any international monetary order will always rest on different pillars. This naturally applied to the Bretton Woods system too. In that system, however, the IMF played a rather central role. This is true not only with respect to the consultations prescribed under Articles VIII and XIV, governing the member countries' obligations to avoid restrictions and to achieve changes in par value in excess of 10 per cent which made it a decisive partner of national monetary authorities and the true center of the international system. The fall of the Bretton Woods system was therefore at first accompanied by a weakening of the Fund's importance. In the initial period after the introduction of floating, the impression could even be gained temporarily that the IMF's function in the policy field had shrunk to that of a passive observer. Today, this is no longer true, and I shall have more to say on this subject later on.

Revival of the International Monetary Fund

"If we try to analyze the reasons for the revival of the Fund's role which is plainly evident to any observer, one of the most important ones seems to be the very fact that the floating system as described above did not prove to be the perfect market mechanism like Adam Smith's 'invisible hand' that would have rendered a central supervisory body superfluous. Undoubtedly, a second reason was the appearance on the scene of the OPEC.

"The IMF's lending activities have expanded strongly over the last few years. In fact, members' drawings on the Fund since the beginning of 1974 have totaled some US\$20 billion, which is more than aggregate drawings up to the end of 1970. Of the recent heavy drawings, only a small portion – around one-fifth – was under the Fund's credit tranches, this not only because of members' reluctance to accept economic policy conditions but also in view of the low volume of funds available under members' quotas in relation to the amounts required for deficit financing purposes. Instead, a major part of recent Fund lendings has been under its special facilities, mainly the – temporary – oil facility, where the Fund acted as a credit agent in the recycling of oil surpluses, and the compensatory facility, access to which was liberalized in 1975.

"The increasing involvement of the Fund in the provision of financial support to developing countries – e.g., via the revised compensatory facility and the newly established Trust Fund – and the persistent further demands to this effect, have given rise to concern in some quarters that the Fund is in danger of being transformed into a development aid institution.

"No doubt this danger is real and it should not be surprising that it exists. Given the inadequacy of official aid programs – in many countries they do not even reach one half of the agreed target of 0.7 per cent of gross national product – it seems rather natural that developing countries try to obtain more funds from other sources, such as the IMF, although this kind of borrowing does not correspond to their real needs as far as maturities are concerned.

Blurring the Functions of the IMF and the IBRD

"I would like to say very clearly already at this point that in my opinion this tendency, understandable as it is, must nevertheless be resisted. Not only would it distort the function of the IMF and blur the sound 'division of labor' between the Fund and the World Bank, it would also not be in the true interest of the developing countries themselves.

The Role of Central Banks

"Returning to my descriptive remarks about the role of institutions in our present international monetary system, I now come to the central banks. It is almost unnecessary to say that they play a decisive role in today's international monetary relations. It must be added, however, that their degree of independence from treasuries or finance ministries is very different from country to country so that nowadays one has to define and distinguish very clearly their respective powers and responsibilities in international cooperation. Most central banks cooperate more or less closely in day-to-day operations on foreign exchange markets. As far as the major industrialized countries are concerned, their central banks are linked by an extensive swap network which has been strongly expanded since its inception in 1962. Special mention should be made here, by way of example, of the close cooperation between the Federal Reserve, the German Bundesbank, and the Swiss National Bank, which has become an established feature in the monetary scene. But it would be much too narrow a view to see the central banks only as the 'engineers' of our international monetary machinery. With the limitations for some of them mentioned before, they form a very important body of thinkers and opinion-makers on all aspects of the system. They are, in other words, the true 'counterparts' to the Fund and they shape the Fund's policies in the governing bodies. Thus, it is of paramount importance that the central banks cooperate as closely as possible with the Fund's Managing Director (and his staff) and that any divergences of views are settled immediately upon their appearance.

The Forum for Central Bank Cooperation

"The forum for central bank cooperation is the Bank for International Settlements (BIS) in Basle, where the central bankers of the Group of Ten countries and Switzerland meet regularly for confidential consultations. More and more, the BIS has become the meeting center for this distinguished club. Besides acting as an information clearing center, the BIS also plays an active part in the

work of various committees of experts dealing with international monetary policy and coordination problems. Furthermore, the BIS had administered joint international monetary support actions such as the recent arrangements for sterling balances and has been associated with the implementation of the agreement on the sale of part of the IMF's gold holdings. All in all, one is inclined to say that the exact role of the BIS in international monetary relations is very difficult to define, but everybody knows what it is.

The BIS and IMF are Linked by Close Ties

"That the BIS and the IMF are linked by traditionally close personal ties, over and above their intensive working relationship is eloquently demonstrated by the example of Per Jacobsson who, prior to becoming Managing Director of the IMF, had been economic adviser and head of the Monetary and Economic Department of the BIS.

"Besides the IMF, the BIS, and the central banks, there are a number of groupings, organizations, and institutions that are also active in the field of international monetary policy and cooperation and thus influence the development of the system. With the Organization for Economic Cooperation and Development (OECD), for instance, Working Party Three is engaged in discussions on and analyses of the member countries' economic and balance of payments situations and formulates policy recommendations.

Monetary Cooperation in the European Community

"In the European Community (EC), monetary cooperation is institutionalized in the Monetary Committee, the Committee of Central Bank Governors, the European Economic Cooperation Fund, and the various financial support mechanisms. In matters of reform of the international monetary system, the EC members endeavor – though not always successfully – to 'speak with one voice.'

"Other groupings or institutions that should be mentioned in this context are the Group of Ten, as parties to the General Arrangements to Borrow, and the informal Group of Five (in the meantime extended to six members), in which the heads of government of the major industrial countries meet in ad hoc conferences, the most spectacular of which, in the monetary field, was the Rambouillet summit.

The Group of Twenty-Four

"In the developing world, the Group of Twenty-Four may be cited as a body representing the interests of the developing countries in the field of international monetary relations. A few months ago, the Arab Monetary Fund was established to help Arab states with payments difficulties and to facilitate the flow of funds among Arab countries. More recently, the five central banks of the Association of

South-East Asian Nations (ASEAN) have established a multicurrency swap facility intended to help members bridge temporary international liquidity problems.

"Lastly, the formation of the creditor group for the Witteveen facility [the Fund's supplementary financing facility] comprising seven OPEC and seven industrial countries should be mentioned here as a novel feature and a striking symptom of the changes in financial patterns in our system.

"The group differs from others inasmuch as the common objective is not mutual assistance, and its setting up has therefore been received with mixed feelings on the part of deficit countries. Some observers feel that there is a potential danger here of polarization between debtor and creditor countries. On the other hand, the new grouping has the advantage that it unites, for the first time, a number of leading industrialized countries with strong currencies and the rich OPEC countries with their more recently acquired financial power, all of whom bear special responsibility for the effective functioning of the world monetary system.

Management of the World Monetary System

"To sum up, outside the IMF and apart from the central banks there are a number of institutions of groupings which – to a greater or lesser extent – participate in the management of the world monetary system. There is no 'hierarchical' structure here, but all are working more or less towards the same goal – a harmonious development of the system. The IMF is represented as an observer or in a more active role in many of these bodies. But this enumeration raises, of course, the question of whether full cooperation between all these bodies is really assured and whether there is not an unnecessary amount of duplicated work." ("The International Monetary System in Operation," the 1977 Per Jacobsson Lecture, September 25, 1977, Washington, D.C., Per Jacobsson Foundation, pp. 13-16.)

The Annual Reports of the BIS

Although the BIS is not the main pillar of the international monetary system, it certainly is one of its key posts. In addition to serving as a research center and a meeting place for central-bank governors and other prominent figures of the financial world, the BIS also issues a very important document – its Annual Report. Economic research and policy proposals are summarized in these Reports. Concerning their importance an Institute of Finance report of the Graduate School of Business of New York University stated:

"The esteem with which the *Annual Reports* are regarded could be extensively documented. Even during the war when the BIS was out of favor *The Economist* noted that 'The report is an admirable argument...for the continued existence of the Bank.'

"The *Statist*, two years later said: 'For many years past...the occasion of the publication of the Annual Report of the Bank for International Settlements has been an event which all those who value brilliant and factual surveys have eagerly anticipated, [and]...they have never been disappointed.'

"Undoubtedly, the reputation for the annual reports is due mainly to one individual, Per Jacobsson, who was the chief economist of the Bank until 1956 when he became Managing Director of the International Monetary Fund. Milton Gilbert, an American economist with long experience at the Organization for European Economic Cooperation (OEEC) in Paris, has carried on the traditions of excellent and imaginative economic analysis since 1960, although the policy flavor of the reports has changed.

The Financial and Economic Development of the Year

"The BIS annual reports discuss the financial and economic developments of the year in great detail. While it is much beyond the scope of this study to comment extensively on the reports, it is worthwhile to look at the policy emphases of the reports as a reflection of the Bank's thinking in the earlier years under the influence of Jacobsson. Two themes run through these reports: (1) the need for closer international monetary cooperation; and (b) the desirability of returning to a gold standard or some form of complete convertibility and 'sound' monetary principles. The emphasis on monetary policy, of course, was in sharp contrast with the discovery and prominence given fiscal policy in the 1930's. Jacobsson's position was vindicated, however, with a return to great reliance on monetary policy in the Western world in the 1950's. Thus, he may have served a useful function as one who kept the tradition of the use of monetary policy alive. For instance, the Bank, while acknowledging the limitation of monetary policy, stressed the need to coordinate monetary policy among countries:

"'In the reestablishment of the world credit structure, cooperation between central banks will help; but the real solution of the problems involved requires the determined and concerted action of governments.'

Increased Coverage of the Annual Report

"As the years went by, the coverage of the annual reports and their size increased despite the declining activities in connection with reparations payments. The older policy themes continued: cases were made for international monetary cooperation, a return to an international gold standard, reestablishment of monetary policy consistent with maintenance of international stability.

"These same attitudes toward economic problems were extended into the post-war period. In 1951, the Bank stressed, for instance, that the ideas of cheap money and credit expansion which survived from the 1930's were among the most serious obstacles to solution of the economic problems of the 1940's. In 1952, the Bank

continued this theme and noted that 'a sound budget policy is not enough; it needs to be supplemented by a flexible monetary policy....' For the Western countries, there can be no doubt as to the goal sought by the BIS: to reestablish – very quickly – effective foreign exchange markets which would make every currency what it used to be – a reliable medium for saving and for the exchange of goods and services throughout the world.

"In 1953, the Bank pointed out:

"The most striking feature of the development of the last two years is that those countries which have made use of the instruments of fiscal and monetary policy – including, in particular, flexible interest rates – instead of relying mainly on direct controls, have been able to master the forces of inflation, even though many of them have been burdened by great increases in armament expenditure.'

"The Bank's concern with inflation and the need to stimulate savings and investment is well expressed in its statement that 'the restoration of a healthy currency is not only the most urgent but also the more remunerative form of investment.'

The Need for Order in Public Finances

"In 1955, the Bank again emphasized the need for 'order in the public finances'...'now that reliance is increasingly being placed on monetary measures instead of on physical controls. Likewise stressed was the need to remove the remaining artificial restrictions and disparities in international economic relations between monetary areas.

"Since the change in economic leadership at the Bank to Milton Gilbert, there has been a gradual shift in the reports toward a greater recognition of the role of fiscal policy. For example, with almost a premonition of the United States in the late 1960's, the 1961 report states:

"When the public authorities do not employ the means of action at their disposal, the monetary authorities are confronted with the task of intervening alone with their own weapons. But monetary policy – as has often been pointed out – is not all-powerful. Unless used as a part of an overall economic and financial strategy, it may prove ineffective. Indeed, it may even do harm.'

Budgetary Deficits in the U.S. and United Kingdom

"In 1967, attention was called to the budgetary deficits in both the United States and the United Kingdom, and it is pointed out that '...the danger of excessive domestic liquidity is just as real as that of stagnant demand – particularly in view of the external payments problems of both countries.' The 1967 report continues:

"...nothing was wrong with the 'new economics' as sometimes charged; the trouble was failure to act promptly and effectively. In particular, fiscal policy was too inflexible, which meant monetary restrictions had to be pushed to the limit. As this process came near to producing a monetary crisis and, indeed, contributed to the intense strains in the foreign exchange markets, the case for a better policy mix in the future cannot be brushed aside.'

"The criticism in the *Economist* of the 1969 *Annual Report* is again indicative of the current thinking at the Bank. The paper refers to the 'gloom bordering on sheer hopelessness' of the annual report 'based on the supposition that governments have declared their independence of 'the system' (as bankers fondly describe the one-time arrangements) and much skepticism about the changes of the politicians acting at all sensible.' This comment clearly points out the yearning in BIS and many central banking circles for an orderly international monetary *system*.

"Similarly, the comment at the end of the 1969 BIS report that 'one waits to see by experience if Gresham's Law will operate, and, if so, which bad money will drive out what good – gold, dollars, or SDR's' has been criticized in some quarters as being negative and not helpful in the implementation of the new system.

Strong Advocacy of Monetary Policy

"Thus, the strong advocacy of monetary policy modified in recent years by a stress on the complementarity of fiscal and monetary policy has been a key feature of the annual reports of the Bank, no less than the policy recommendation coming from its headquarters. The Bank may have served a useful purpose in keeping this position alive in the 30's, 40's and 50's when it was distinctly a minority position. But even more persistent was the Bank's call for sound international money based on the gold standard and freely convertible currencies. This strong 'sound money' line no doubt reflects the Bank's clientele – i.e., central bankers, but may also have contributed to the rejection of the BIS by government officials as the major international agency in the postwar period." (The Bank for International Settlements, 'Bulletin No. 65-66, September 1970, pp. 24-27.)

Coordination of Economic Policy Between Central Banks

One of the BIS' early Annual Reports fully discussed the scope of central banks cooperation. The Report suggested that there were eight predominant areas in which collaboration and coordination of economic policy between central banks might occur:

"1. To evolve a common body of monetary doctrine and assure the widest possible measure of common agreement on monetary theory, problems and practice, including agreements upon what the international standard is to be and how to maintain it....

"2. To comprehend by interchange of information and counsel the difficulties which confront one's neighbor as well as oneself, and thus perceive the true motives and necessities for the lines of conduct respectively followed.... While such action would not eliminate the need for reconciling conflicting purposes, it would by mutual consultation alleviate their worst implications and facilitate a more considered pattern of action on the part of everybody concerned.

"3. To learn how to avoid doing harm to one another, especially when one central bank is operating in the market of a neighbor....

"4. To gather and exchange data and information of a monetary and economic character, domestic and foreign, thus helping to form a basis of judgment in guiding credit policy and deciding the proper course of conduct.... On this technical level, a great deal can be learned and potentially conflicting actions avoided by exchanging information. It will make available to all without duplicating data collection information that would otherwise be available only to a few; at the same time, it will provide vital information concerning Banking operations which may aid in the solution of some of the problems of central banking.

"5 To improve inter-central bank practice in such technical matters as agreement upon the standard of gold bars to be universally accepted, arrangements for earmarking...and the creation of facilities for the secure investment and the rapid mobilization of funds of one central bank held by another....

"6. To be prepared to exchange technical counsel when needed with respect to the creation of new central banks or with regard to alteration in the statutes of existing central banks at the time of their organization or in their studies....

"7. To assist smaller and newer central banks in their efforts to follow a sound credit and financial policy....

"8. To confer together in eliminating the demonstrated defects of what was erroneously called 'the gold exchange standard,' and to improve the future working on a restricted, controlled and centralized basis of the system of foreign currency reserves of central banks.... (See "Bank for International Settlements," *Fifth Annual Report*, Basle, Switzerland, 1935, pp. 41-48.)

The Banking Crisis of 1974

Cooperation between central banks proceeded rather smoothly despite periodic problems between 1930 and 1974. The banking crisis of 1974, however, led to a number of important changes in the management of the international system and the role of the BIS. These dramatic changes brought about by this crisis and the new responsibilities assumed by the BIS as a result of it were described in a book by Joan Edelman Spero. It is entitled, 'The Failure of the Franklin National Bank:

Challenge to the International Banking System.' It was especially prepared and published by the Council on Foreign Relations in New York. The banking crisis of 1974 dealt mainly with the failure of a number of leading banks throughout the world and more especially the Franklin National Bank of New York. The author noted:

"...Since 1960, the Chairman of the Board of Governors of the Federal Reserve System and other high-level Federal Reserve officials, had been meeting monthly with governors of other central banks at the Bank for International Settlements (BI) in Basle, Switzerland, to discuss monetary and economic policy. The result of these regular monthly meetings and of other contacts was the development of a network of high-level officials who knew each other well and who cooperated in a number of efforts to manage the international monetary system during the 1960s. Until 1974, however, central bank cooperation did not involve international banking questions or bank supervisory officials. The Franklin crisis and the troubles of 1974 would change both the participants and the purview of central bank cooperation....

"In addition to ad hoc cooperation, the banking crisis of 1974 (of which the Franklin crisis was a central element) led to important innovations in the management of international banking. New international cooperative mechanisms developed at three levels: central bank governors meeting together at the BIS; top level bank regulatory and supervisory authorities from twelve major countries meeting in a newly formed international committee; and national regulatory and supervisory authorities acting both on their own initiative and cooperatively with their foreign counterparts.

Central Bank Cooperation to Avert International Financial Crisis

"Central bank cooperation to avert and manage international financial crises is not a new phenomenon. Such cooperation was a stabilizing force in the interwar monetary system and rose to prominence again after 1960. Beginning in that year, governors and high officials from the central banks of the Group of Ten countries gathered monthly at the Bank for International Settlements at Basle, Switzerland, and conferred frequently between meetings on monetary and economic problems. As a result there developed a close personal network and a high degree of consultation and cooperation among central bankers. This experience was the essential base on which international financial consultation and cooperation were expanded to international banking.

"Despite the dramatic growth in international operations, there was little concern among central bankers before 1974 about crisis prevention or crisis management in international banking. Bank regulation and supervision were perceived as relatively unimportant issues which, in any case, were of national and not international concern. Similarly, crisis management issues such as lender of

last resort policies were seen as problems of primarily historical interest and, again, ones with national and not international dimensions. As one high official of the Bank of England put it:

"For some years...international developments were largely unheeded by the main national supervisory authorities, for the good reason that they had no immediate cause for concern...it was not until the end of 1973 that the potential weaknesses of the system began to become clear.'

Problems Raised by the Internationalization of Banking

"The crisis of 1974 forced central bankers seriously to consider the problems raised by the internationalization of banking. The first joining effort of central bankers was their attempt to prevent the further erosion of confidence in international banks during the summer and autumn of 1974. The central bank governors sought to shore up confidence by convincing the world that they were ready and able to act as lenders of last resort in international banking.

"The regular monthly meeting at the BIS in July 1974 took place less than two weeks after the Herstatt collapse, during the Franklin crisis, and in the midst of great instability in foreign exchange and Eurodollar markets and great concerns about bank liquidity. At that meeting the bankers agreed in principle to provide emergency assistance to financially troubled banks wherever necessary to avert a crisis of confidence in the international banking system.

Preventing a General Liquidity Crisis

"This commitment, however, was very vague. It was not officially announced but instead leaked to the press. The nature of the commitment was kept unclear. According to Andrew Brimmer, who at the time was a member of the Board of Governors of the Federal Reserve System, the decision was in fact a compromise between the Federal Reserve, which argued for an explicit commitment by central banks to act as lenders of last resort, and the Bundesbank, which did not want to be committed to intervene when banks engaged in unauthorized or illegal activities. Banks did not commit themselves to helping troubled institutions but only to preventing a general liquidity crisis. Thus it remained uncertain just which illiquid institutions would be helped. The determination of lending in actual situation was presumably left to national authorities, perhaps with some international consultation. And the assignment of responsibility for different forms of foreign banking institutions was either not made or not announced. It was understood, as the Franklin events demonstrated, that national authorities would be responsible for foreign branches because they were considered integral parts of the parent. Responsibility for consortium banks and for foreign subsidiaries, however, remained unclear. Such subsidiaries were owned by foreign banks but incorporated in the host country. They are thus legally separate from the parent and from the home lender of last resort. However, morally and for reasons of their own

reputations parents may feel responsible for such subsidiaries and home authorities may thus be confronted with the issue of support.

"The July agreement did little to arrest the erosion of confidence in international markets. Depositors continued to flock to large banks of major countries which they, correctly, believed authorities could not allow to fail. Smaller institutions such as regional banks and those from countries with weak balances of payments such as Italy and Japan were increasingly squeezed. Particularly hard hit were consortium banks and foreign subsidiaries which were unable to acquire funds or were forced to pay high interest rates.

Central Bank Governors Issue a Communique

"In September, therefore, the central bank governors took the unusual step of issuing a communique following their monthly meeting. The statement made specific reference to the problem of lender of last resort:

"The governors had an exchange of views on the problem of lender of last resort in the Euromarket. They recognized that it would not be practical to lay down in advance detailed rules and procedures for the provision of temporary liquidity. But they were satisfied that means are available for that purpose and will be used if and when necessary.'

The Persistent Dilemma Facing Lenders of Last Resort

"The commitment – although now public – was still left ambiguous. This ambiguity was due in part to the persistent dilemma facing lenders of last resort: the problem of trying to make depositors feel confident without making bankers feel complacent. In seeking to ensure the liquidity of the system the lender of last resort must inevitably prevent the failure of specific banks, but if banks feel the lender of last resort will come to their rescue they may be encouraged to undertake riskier ventures. Henry C. Wallich, a member of the Board of Governors of the Federal Reserve System, testifying in the Senate, described the September statement and United States policy and explained why emergency lending commitments had not been made specific:

"There are dangers in trying to define and publicize specific rules for emergency assistance to troubled banks, notably the possibility of causing undue reliance of such facilities and possible relaxation of needed caution on the part of all market participants. Therefore, the Federal Reserve has always avoided comprehensive statements of conditions for its assistance to member banks. Emergency assistance is inherently a process of negotiation and judgment, with a range of possible actions varying with circumstances and need. Therefore, a predetermined set of conditions for emergency lending would be inappropriate.'

The Vague Nature of the BIS Commitment

"Another reason for the vague nature of the BIS commitment was the real differences in the capabilities and policies of various national lenders of last resort. In West Germany and Luxembourg there were no official lenders of last resort. In addition, there were great differences of opinion between home and host countries regarding responsibility for subsidiaries and consortium banks.

The Largest Concentration of Foreign Bank Institutions in the World

"As the host central bank for the largest concentration of foreign bank institutions in the world, the Bank of England pressed for international rules which would restrict its responsibilities and force other states to assume responsibility for nonbranch affiliates of their banks. George Blunden, the head of banking supervision of the Bank of England, described the policy of the British central bank in a speech in March 1975:

"Our contentions...are: first, that branches of overseas banks here are integral parts of the banks to which they belong and are thus primarily the concern, not of us as the central bank of the host country, but of their parents and of their parent's central bank or other supervisory authorities for both supervision and support; second, that...for banks registered here but owned overseas, such ownership entails responsibility for support, whether the bank concerned is wholly owned or is owned by a consortium....'

The Bank of England

"The Bank of England has made several attempts to persuade other central banks to adopt this position. When the Israel British Bank, a subsidiary of an Israeli bank incorporated in the United Kingdom, went into receivership in August 1974 because of illegal activities, the Bank of England insisted that it had no responsibility as lender of last resort for a wholly owned subsidiary of a foreign bank. Israeli banking authorities, on the other hand, argued that Israel was not responsible for a British corporation. The two governments jostled for over one year. Eventually, under pressure from the United States, Israel agreed to pool the assets of the parent bank and the British subsidiary while the Bank of England; in a concession it insisted was not a precedent but a magnanimous gesture, contributed 3 million to the pool of assets. The Bank of England had held to its principle although the events reveal there is little international agreement on the subject.

"In September 1974 the Bank of England sought a commitment to its policy by sending a letter to the owners of consortium banks operating in London asking that they acknowledge 'moral responsibility' for their investments in London. Moral responsibility was defined as 'responsibility to support those investments beyond the narrow limits laid down by laws of limited liability and above all as responsibility to protect depositors with those banks.' When the Bank received

such confirmations, it then wrote to the parents of subsidiary banks asking for a similar commitment, which it received.

Acquiescence to the Bank of England

"In the view of the Bank of England, acquiescence to its actions suggests most central banks agree with the interpretations of the Old Lady of Threadneedle Street. As Mr. Blunden put it: '...we have clarified with banks in London associated with overseas banks, with their shareholder banks and with other central banks, where responsibilities for support lie. Our contentions...have been generally accepted by those banks.'

"Acceptance, however, is not so widespread and clear cut as Mr. Blunden suggests. The Federal Reserve, a crucial actor in the system, has taken the position that although American banks responded with a moral commitment, the Federal Reserve is not bound by these 'comfort letters.'

"Nonetheless, the Board of Governors has taken steps to deal with the problem of risks in foreign joint ventures of American banks. In a policy statement on February 12, 1976, the Board announced that in determining whether to approve an application of an American banking organization to invest in a foreign joint venture it would, 'as a matter of policy,' take into account:

"1. The possibility that the venture might need additional financial support.

"2. The possibility that the additional support might be significantly larger than the original equity investment in the joint venture.'

"While not acquiescing to the Bank of England's interpretation, the Federal Reserve has sought to protect against a testing of its support for foreign joint ventures. Thus, just what the ledgers of assurance mean will not be known unless and until they are tested.

Division of Responsibility Is Unclear

"Not only is the division of responsibility unclear, the policies of central banks toward intervention in crises also differ greatly. The Federal Reserve, as demonstrated in the Franklin National Bank case, believes in early intervention to manage crises, while the Deutsche Bundesbank continues to defend its policy of nonintervention in the Herstatt case. Thus there remains great uncertainty as to what national policies will actually be in the event of a crisis.

"In sum, even though the issue of the lender of last resort in Euromarkets has been raised to the level of central bank consultation, important national differences and thus important gaps remain.

Central Bank Governors Expand Purview to Bank Supervision

"Another result of the 1974 crisis was that central bank governors expanded their purview to bank supervision. While discussion previously centered on monetary and economic policy and is still heavily focused on those issues, bank supervisory and regulatory policy has become a more prominent subject of discussion at the monthly meetings and in more informal encounters than before. The September 1974 communique stressed this new focus:

"At their regular meeting in Basle on 9th September, the central bank governors from the countries of the Group of 10 and Switzerland discussed the working of the international banking system. They took stock of the existing mechanisms for supervision and regulation and noted recent improvement made in these fields in a number of major countries.

"They agreed to intensify the exchange of information between central banks on the activities of banks operating in international markets, and, where appropriate, to tighten further the regulations governing foreign-exchange petitions.

A Standing Committee on Banking Regulations

"Not only have central bank governors directly discussed supervisory problems, they have also created a Standing Committee on Banking Regulations and Supervisory Practices within the BIS, the so-called Blunden (now Cooke) Committee.

"The Standing Committee on Banking Regulations and Supervisory Practices was a direct outgrowth of the 1974 banking crisis. As a result of the Franklin and Herstatt episodes and other bank failures and losses, supervisory activities came to be seen in a new and more important light. As W. Peter Cooke, the present chairman of the Standing Committee, put it:

"Although the international character of major banks had developed enormously, there was absolutely no parallel development of international supervisory machinery. This left large gaps through which many imprudent activities could be driven. The events of 1974 highlighted the problem. People were aware of the problem before 1974 but the crisis impelled them to move.'

Formation of the Standing Committee

"The initiative for the formation of a Standing Committee came from Governor Richardson of the Bank of England. As host for the major center for Euromarket operations and the largest concentration of foreign branches, subsidiaries, and consortium banks, the Bank of England took the lead in pressing for supervisory cooperation, much as it had pressed for agreement on the responsibility of the

lender of last report. Richardson's main concerns were direct responses to the events of 1974. He wanted an improvement in bank supervision and regulation of foreign exchange trading and an international early warning system which would sound the alarm before another crisis erupted. Thus in the fall of 1974 Governor Richardson proposed that the Group of Ten governors establish a Standing Committee on regulatory and supervisory practices.

"There was a precedent for such cooperation. Since 1972 bank supervisors within the EEC had been meeting in the Groupe de Contact. This informal gathering of regulatory officials was the response of central bank supervisors to movement within the EEC to develop an economic and monetary union and to harmonize banking laws. It had no official status; participants did not attend as national representatives, but as informal members of an unofficial club. Its meetings, which took place three times a year, were very informal, involving no interpreters, no minutes, no secretariat. Its discussion centered on such problems as banking secrecy, national regulatory systems, and new problems posed by international banking. Importantly, the Groupe de Contact also served as a method for exchanging confidential information on the situation of banking and banks within the EEC.

The Promotion of International Cooperation

"Governor Richardson's proposal that a new, broader, and formally institutionalized body be created fell on receptive ears. The United States, as the other power in international banking, was particularly interested. Pressure was building within the Federal Reserve System for improvement in the regulation and supervision of international banking. Within the Federal Reserve System a Steering Committee on International Banking Regulation has been established, with Governor George Mitchell as chairman. It considered the status and position of foreign banks in the United States and American regulatory policies governing the activities of American banks abroad. Governor Mitchell was interested in encouraging international cooperation among supervisors and had independently invited the Group of Ten supervisors to a meeting in Washington in 1975.

"As a result of Richardson's efforts, the Group of Ten central bank governors in autumn 1974 established the Standing Committee on Banking Regulations and Supervisor Practices. The Standing Committee is composed of representatives from the Group of Ten countries plus Luxembourg and Switzerland – the countries where the principal international markets are located and whose banks are most active in those markets. George Blunden (until June 30, 1977) and Peter Cooke have attended in the capacity as chairman.

"The Standing Committee meetings are more formal than the gatherings of the Groupe de Contact. Interpreters are present; minutes are kept; papers are presented. The Standing Committee also has a secretariat, a function performed by the BIS.

The Purpose of the Standing Committee

"The purpose of the Standing Committee is to prevent international financial disruptions resulting from banking failures. The actual agenda is set by the Committee itself within the broad terms of reference set by the central bank governors and subject to their further instructions. It was specifically charged by the governors to develop international early warning systems to identify problems in national banking systems which might have international repercussions. It has also been authorized to examine the health of the international banking system, supervision across national frontiers, and other international banking problems as they arise. The governors, however, did not want the problem of lender of last resort discussed in the Committee, and reserved it for themselves.

"The role of the formal meetings of the Standing Committee is primarily consultative. At the first meeting there was some talk of creating a new international body with supervisory power. However, as George Blunden put it:

"The Committee quickly reached the conclusion that it would not be practicable to establish a separate reporting system, operated by an international body, to cover all international banking operations and to provide early warnings by identifying potential danger spots. Such arrangements would inevitably, in large part, wastefully duplicate existing national arrangements, would in many countries be incompatible with existing legislation, and would be very difficult to coordinate because of differences in individual banking and political systems.'

Focus of the Committee

"The Committee has thus focused on improving national supervisory systems and on developing cooperation among national authorities through a consultative process.

"One important type of consultation has been the regular study of supervisory techniques and innovations in the member countries. Before the formation of the Standing Committee, supervisors had very little knowledge of supervisory responsibilities and methods in other countries. As a result of national reports in the Committee and of comparative studies made by the BIS secretariat, they are now well informed about foreign practices. The purpose of this exchange of information is not only to educate supervisors about foreign systems but also to encourage national change by making authorities aware of weaknesses in their own systems and of possible models for improving them. Thus, studies have focused not only on general analysis and comparison of supervisory systems but also on specific problem areas: attitudes of member countries on the role of loan capital in a bank's balance sheet, requirements for endowment capital for foreign branches, arrangements for bank audits, control over potential clashes of interest.

"The Standing Committee has given special attention to supervisory problems created by international banking. It has sought to develop some common understanding and guidelines on a variety of international problems. Its initial concern was the problem of foreign exchange. The Committee discussed foreign exchange supervision and examined the experience of the Federal Reserve Bank of New York in acquiring the foreign exchange book of Franklin National Bank and the international problems involved in working out that book. Although the Committee began by emphasizing foreign exchange and although it is still concerned with some of the more specialized aspects of foreign exchange, such as the legal status of foreign exchange contracts and relationships between banks and foreign exchange brokers, it has moved on to other areas of supervision of foreign activities: guidelines for judging capital adequacy for foreign branches, desirable maturity spreads, overbearing and imprudent lending, internal control systems within banks.

Supervision of Foreign Banking

"The Committee has also sought to identify and fill gaps in the supervision of foreign banking. It has had some success in identifying responsibilities of home and host countries. There has been agreement that the host supervisory authority has primary authority for supervising foreign subsidiaries and joint ventures, and that parent authorities have primary responsibility for foreign branches. The Committee has pressed for the right of parent supervisory authorities to make direct inspections of or at least to have access to information about the foreign affiliates of their banks.

"The Committee has also examined problems arising from differences in auditing and accounting practices between countries. The Committee's studies of cases such as the Israel-British case showed that such differences contributed to the failure of supervisory authorities, auditors, and lending banks to identify bank problems. There has been general agreement within the Committee that auditing and accounting practices can be improved and harmonized. To this end the Committee has commissioned the International Accounting Standards Committee to study and develop proposals for the harmonization of national accounting and auditing standards.

The Difficulty in Operating a Unified System

"In all these studies and discussions the Committee's goal is not, as George Blunden put it 'a massive harmonization of our approaches to supervision. The legislative backgrounds against which we operate, the banking systems which we supervise, and the political structures – for example unified or federative – of our different countries, are all so vastly different that we could not operate a unified system.' Rather, the goal, he said is to 'learn from each other and adapt the best features of each other's systems for inclusion in our own systems.'

An Important Catalyst for National Reform

"Members of the Committee point out that it does act as an important catalyst for national reform. It subjects national policy to international examination, offers suggestions and models for national change. Such suggestions have been effective because they have come at a time when national banking problems have led to widespread national reforms in bank supervision and regulation. The Committee can also serve as a pressure group for national change. George Blunden, for example, suggested that its support for greater access by home supervisory authorities contributed to greater openness by host authorities:

"It is interesting to note that, since these recommendations on the desirability of increased co-operation were made, a number of countries have already taken powers under legislation, or have the taking of such legislative powers in prospect, to permit the passing of information gleaned for supervisory purposes to supervisory authorities in other countries.'

The Work of the Standing Committee

"There is another important dimension to the work of the Standing Committee: its informal activities. One of the major consequences of the Committee has been the creation of an international network of high-level supervisory authorities who know each other well, trust each other, and are able to communicate confidentially with each other. Before the creation of the Committee this international network simply did not exist. Except for those supervisory authorities who had begun to meet in the Groupe de Contact, high-level officials had never met. Now they have close contacts.

"This contact and trust have made possible an informal but important international early warning system for international banking. The formal structure of the Committee has created links which enable the members to engage in informal discussion both in the corridors and between meetings. As George Blunden put it, the group has established 'among ourselves such a degree of personal contact and trust that we can help to forestall troubles in the international system by working closely together.' The subjects of these discussions are the 'facts and gossip' of bank supervision which national supervisors feel it is important for other supervisors to know. U.S. bank regulators feel confident enough now to reveal to their counterparts in Standing Committee countries information about activities of banks from those countries operating in the United States. West German and Luxembourg authorities have arranged for German authorities to receive information on the operations of German banks in Luxembourg. This exchange better enables national authorities to control their own banks.

Face to Face Contact of the Committee

"The face-to-face contact of the Committee has also made it easier for supervisory authorities to work together during a banking crisis. One case of international cooperation which was discussed by the Committee was that of American Bank and Trust Company of New York and Banque de l'Amerique du Sud of Belgium (BAS). This case was not handled within the Standing Committee network because it involved a nonmember, the New York State Banking Commission. But the case did reflect the new efforts at international cooperation in the wake of 1974.

"American Bank and Trust Company, ABTO, (chartered by New York State and owned by Swiss-Israel Trade Bank of Geneva, which was in turn controlled by a Chilean citizen) had close links with BAS, owned by the Graiver family of Argentina. The two banks, it seems, were being used for an international looting scheme designed to benefit the Graivers. Cooperation between New York State and Belgian banking authorities made possible the uncovering of the scheme and led to the closing of both banks. The New York State Banking Commission uncovered suspicious activities involving transactions between ABT and BAS which it could not evaluate without evidence from Belgian authorities. New York authorities contacted Belgian authorities who then came to the United States, received information about the mysterious transactions, and returned armed with accounts and names. The transactions matched and the fraud was confirmed. Once the scheme was uncovered authorities continued to keep each other informed and to coordinate the closing of the two banks. The international exchange of information, exchange of views about the situation and about what each was doing and planned to do enabled both American and Belgians to manage the domestic banking problem more effectively. After it was all over, Herman Baeyens, Director of the Belgian Banking Commission, gave a presentation of the case to the Standing Committee.

Formation of Other Committees

"The Standing Committee and other BIS cooperation, such as the collection of Eurocurrency data, have paved the way for the formation of other groups within the BIS to discuss international banking problems. One such problem has been the growing debt of certain countries, particularly underdeveloped countries. A surge in Eurodollar borrowing of Third World countries in the late 1960s and early 1970s plus the recent borrowing to finance oil-induced deficits has led to significant increase in Third World indebtedness and in the indebtedness of certain countries. Just how that debt is distributed, however, remains a mystery. Complete and uniform data for Eurobank loans are simply not available. Information exists for United States banks and their foreign branches and for head offices of banks in Europe and Japan. But European and Japanese authorities have not collected data on loans of their foreign branches around the world. Furthermore, because the type

of reporting required by different national authorities varies significantly, available data are often not comparable or capable of being aggregated. Finally, there has been no aggregation of data beyond rudimentary national efforts.

"In July 1976 at their monthly meeting the central bank governors established a group within the BIS to gather better and more complete data on the geographical distribution of international lending. The group began meeting in September 1976. Its data-gathering effort, now in process, is the first step toward an international evaluation of the problem of country risk.

Development of External Links

"The Standing Committee network is also developing external links. There has been concern within the Committee that its control does not extend beyond the twelve member states and that the limit of its scope might be a problem in preventing and controlling future problems. Thus, while the Group of Ten plus Switzerland and Luxembourg remain the only members of the Committee on Banking Regulations and Supervisory Practices, the Committee has developed relations with banking authorities in other countries. Such links broaden the pressure for reform, the early warning network, and could prove vitally important in the event of a bank crisis which required cooperation of authorities outside the Committee membership group. (The Failure of the Franklin National Bank: Challenge to the International Banking System, New York: Columbia University Press, 1980, pp. 152-166.)

The International Monetary System

As noted earlier, there are five basic global institutions which have been established to support the international banking system and the international monetary and economic systems. They are the BIS, IMF, IBRD, OECD and GATT (now the WTO). The main purpose of this alphabetical mixture is to promote, defend and maintain those "systems" best designed to concentrate wealth and power in the hands of a few carefully selected individuals. The long-range goal of the bankers and corporate directors, we should remember, is to construct a global political and economic system administered by a consortium of the elite. In order to perpetuate their banking policies and to protect any disturbance in the banking system it is necessary to have a global central bank. The IMF and BIS both complement each other in this area and both are being structurally modified to play such a role. The bankers not only anticipate an international resource asset in the future but a global central bank as well. Almost complete economic and political sovereignty will necessarily have to be transferred to these international bodies from the various nation-states in order to achieve these goals. In the days ahead such words as "convergence," "interdependence," "harmonization" will be steadily utilized to persuade government officials, politicians and the public at large to go along with their evolving system of global governance.

The Management Dilemma Facing International Bankers

Joan Edelman Spero summarized the "management" dilemma facing the bankers when she said:

"...One of the most important lessons of the failure of the Franklin National Bank is that the international banking system is potentially vulnerable to a weakness in one of its parts. The combination of the new interdependence of the world's banking system and the absence of an order to manage that interdependence make the system susceptible to a crisis of confidence.

"We have seen that the growth of international banking in the 1960s and 1970s coincided with the development of the Eurocurrency and foreign exchange markets which link banks together through a network of mutual deposits, credits, and foreign exchange contracts. Because of the direct linkages of banks through these markets and because of the intangible but very real indirect linkage of bank confidence throughout the system, problems in one bank can spread in a domino fashion throughout the system. A crisis in one bank – whether that crisis arises from international or domestic problems and whether that bank is large or small – can lead to a chain reaction of deposit withdrawals, exclusion from exchange markets, or interest rate and exchange rate discrimination which affects institutions throughout the international banking system. Because of the significance of interbank liabilities and foreign exchange transactions to bank operations, such withdrawals, exclusion or rate discrimination could impose serious damage even on healthy banks....

The Absence of an International Management System

"The absence of an order or system of management to prevent or control crisis of confidence accentuates the inherent fragility of the international banking system. The stability of domestic banking systems is enhanced by solvency regulations, deposit insurance, and the existence of a lender of last resort, all of which seek to assure solvency, instill public confidence, and prevent panic. The international banking system does not benefit from such an order. As we have seen, the absence of solvency regulation in international banking leaves the system highly competitive, risk prone, and without the protection of obligatory reserves. American deposit insurance does not cover foreign branches and in any case would not cover large deposits such as international certificates of deposit and Eurodollar placements. Finally, there are important gaps in the lender of last resort responsibility which lower the level of confidence.

"Aggravating the problem of order is that of information. While there is no comprehensive international order, there are various national orders which to a certain degree protect international banks. However, the lack of understanding of these orders outside national boundaries and the resultant uncertainty about national policy undermines confidence....

Weaknesses in the International Banking System

"Given these important weaknesses in the international banking system, severe strains on that system can overburden it and create a crisis of confidence. The crisis of 1974 developed from the coincidence of a number of difficulties: a precarious international economic environment shaken by inflation, recession, international monetary instability, and the oil crisis; a vulnerable international banking system weakened by policies implemented in the euphoric 1960s and early 1970s; and the shock of the failure of several banks and serious losses in a number of other banks. It is possible that a combination of strains could again render the system fragile. Should the world economy enter another cyclical decline and should the banks have placed themselves in a vulnerable position through unwise policies, a shock could once again trigger a crisis of confidence. That shock could arise from a bank failure as in 1974 or from some other strain such as the default of a major international borrower or a war in the Middle East leading to an oil embargo or to a politically motivated shift in the financial assets held by Middle East oil producers.

"If, under certain conditions, it *can* happen again, it is essential that public authorities have the capability to minimize the possibility of crisis and to contain a crisis if and when it should develop.

A Milestone in the Management of International Banking

"The international banking crisis of 1974 was a milestone in the public management of international banking. The crisis altered the perception of public authorities about the stability of the international banking system. Before 1974 it was generally believed that the problem of financial crisis had long ago been solved. After 1974 no one could be confident of the inherent stability of the system. As a result of their changed perceptions, authorities began to adapt regulatory systems to enable them to control, and if possible to prevent, international banking crises.

The Franklin Episode

"The Franklin episode revealed both the weaknesses and the strengths of the United States regulatory system as it applies to international banking.

"Regulators were ineffective in preventing the Franklin crisis. Supervisory laxity and failure to adapt to the revolution in banking set the stage for Franklin's failure. Supervision of Franklin by the Office of the Comptroller of the Currency was extremely weak. In most instances supervisors discovered Franklin's problems but relied on assurances of Franklin's management, and not on actual observation, that problems were being solved – which they were not. Nowhere was this more true than in foreign exchange. Despite findings of inadequate controls and reports of heavy trading, the supervisors took no action. The comptroller also made no efforts to stem Franklin's growth, including its international expansion. While the

Comptroller's endorsement of the Nassau branch was routine, the London branch endorsement was given despite Franklin's having been placed on the problem bank list and despite an initial decision to recommend that the Board of Governors deny Franklin's request. When the Comptroller's office recommended against the London branch, a little pressure and promises from Franklin sufficed to overcome the initial hesitation. There is also no evidence that the Comptroller's office sought to enforce the Board of Governors' requirement that the size of the London branch operation be limited.

The Failure of the Federal Reserve

"The Federal Reserve, although not the primary supervisor of Franklin, did have responsibility for regulating and supervising Franklin New York Corporation, the Franklin holding company, and for approving foreign branch expansion. At three points the Federal Reserve might have used its powers to constrain Franklin, and in all but one case it failed to do so. In the case of foreign branch approval, the Board of Governors, despite its own doubts, followed the advice of the Comptroller regarding Franklin's strength and approved the bank's applications. That approval seems justified for a Nassau shell branch but questionable for the London branch. Again, although the Board hedged its London approval by stating that Franklin should limit the size of its London operation, there is no evidence of any further Board surveillance of London activities.

"The Federal Reserve also failed to act on the Sindona acquisition of a controlling interest in Franklin New York Corporation. Legal questions, Franklin's pressure to take no action, and the absence of pressure within the Federal Reserve System to act led to the Board's failure to declare Fasco a bank holding company. Evidence suggests, however, that the Board could have made such a finding and thereby enhanced its supervision and regulation of the Sindona connection. Had Fasco been declared a bank holding company the Board might even have prevented the Sindona purchase of a controlling interest in Franklin New York Corporation. Only on the Talcott acquisition did the Board of Governors decide to take action to constrain Franklin. By then, unfortunately, it was too late. At one point – when Morgan Guaranty officers informed Federal Reserve Bank of New York officers of their mounting concerns about Franklin – the Federal Reserve Bank might have been more persistent in uncovering Franklin's rumored excessive foreign exchange trading. Whether such persistence would have been effective in light of the cover-up by Franklin officers is questionable.

An Environment of Supervisory Permissions

"In an environment of supervisory permissiveness, Franklin's management was left to pursue its reckless and illegal policies. As a study of the Comptroller by the House of Representatives Committee on Government: Operations concluded, the

failure of Franklin National Bank 'brought to a conclusion half a decade of financial mismanagement and regulatory neglect.'

"While authorities were unable to prevent or anticipate the Franklin crisis, they were able to respond effectively once the crisis erupted. The massive Federal Reserve loan and the use of that loan to cover foreign branch outflows, the assistance in managing foreign exchange operations and the eventual purchase of Franklin's foreign exchange book, and the FDIC sale of a large bank like Franklin with foreign branches required creative innovation. That innovation and the concomitant interagency bargaining took time. The five months of the Franklin crisis, however, may have served as a learning experience which will enable authorities to manage the next crisis more rapidly.

International Cooperation in the Franklin Crisis

"International cooperation was also effective in the Franklin crisis. The Federal Reserve loan, the management of the foreign exchange book, and the disposal of Franklin, as we have seen, were greatly facilitated by the existing institutional and informal framework of central bank cooperation, the crisis would certainly have lasted longer and very well might have had more serious effects.

"The shock of 1974 forced regulators to recognize the vulnerability of the international banking system and led to some efforts to contain and prevent international financial crises.

Important Changes Have Taken Place

"A number of changes have taken place at the national level, many of which have important consequences for international banking. The action of the Federal Reserve in the Franklin National Bank crisis demonstrated that the world's most important banking power is willing and able to take action to contain financial crises. The eventual participation of the Bank of England in the settlement of the Israel British failure and even the favorable treatment to foreign creditors in the Herstatt case demonstrate the recognition by important banking authorities of the special needs for crisis prevention in international financial markets.

"Changes have also taken place in supervisory and regulatory law and practice which move in the direction of crisis prevention. In the United States the Federal Reserve has been more conservative in approving foreign expansion of American banks and has required greater attention to capital and liquidity positions. New supervisory methods have been introduced by the Comptroller of the Currency in an effort to prevent the kind of laxity which let Franklin National Bank slip through the supervisory net. On the international side, bank supervisors now pay greater attention to risks such as foreign exchange trading and country loan concentration. Federal control has been extended to foreign banking institutions operating in the United States.

Changes Outside the U.S.

"Outside the United States there have also been changes. Reforms in national banking laws which would limit risks banks assume, extend supervisory authority over banks, and facilitate the international exchange of information about banking problems have been proposed in many countries and enacted in some. Some states have created new lending facilities to aid illiquid banks and many states are considering deposit insurance schemes. Efforts have also been made to make national supervisory systems more sensitive to the new nature of banking, including special attention to such international problems as foreign exchange trading and country risk.

"These national changes enhance the ability of national authorities to manage crises and to identify and prevent national problems which might escalate into international difficulties. They also narrow some of the gaps in international banking supervision by broadening national supervision. But changes at the national level, however far-reaching they may be, are inadequate to deal with some of the most important problems of international banking – those gray areas where responsibility for crisis managements and crisis prevention remain undefined. Dealing with the large gray area can only be achieved through international cooperation.

Steps Toward International Management

"Some steps toward international management have been taken since 1974. The central mechanism of management of international banking is not an institution or a constitution but a series of international consultative processes. As a result of the crisis of 1974, central bank governors broadened the purview of their ongoing dialogue to include lender of last resort problems as well as issues of supervision and regulation in international banking. The governors also established the Standing Committee on Banking Regulations and Supervisory Practices, which regularly discusses important technical issues of bank regulation and supervision.

New Institutionalized Consultative Processes

"The results of the new, institutionalized consultative processes are three-fold. First, governors and supervisors have been able to establish certain formal rules of the game. They have reached some agreement on lender of last resort and supervisory responsibility in international banking, although important gaps remain. There have also been efforts to harmonize auditing and accounting standards. Where agreement has not been reached on formal rules, there is the possibility that general principles will eventually be established through the continuing dialogue.

"Second, the dialogue is itself an important management mechanism. The consultative process at the governor level, for example, may serve as a substitute

for formal agreement on the lender of last resort's responsibility. Although the governors will probably be unable to establish firm rules defining who is responsible for what and when, they may very well be able to develop ad hoc agreements in specific cases involving lending to illiquid institutions and containment of international banking crises. Informal management also exists at the level of the Standing (Cooke) Committee. While supervisors found they were unable to create a formal international early warning system, they were able to develop an informal network of close contact with each other which serves as an informal early warning system to identify national bank problems which might have international ramifications. And although it is impossible to harmonize national supervisory and regulatory systems, the exchange of information on national systems and policies makes better coordination of those systems possible. The dialogue also contributes to international confidence and stability by disseminating knowledge of national systems and policies and thereby improving the predictability of the behavior of other actors. Finally, the dialogue and the network create the possibility of influencing the behavior of national actors, especially in a crisis situation. In sum, the international consultative processes provide an informal steering mechanism for the international banking system.

"Third, the work of the Standing (Cooke) Committee and of the central bank governors to whom the members report has served as an initiator of national change. The Committee's practice of subjecting national supervisory systems to international discussion, of developing broad principles or guidelines for supervisory reform, and of offering models for that reform has had an effect on national supervisory and regulatory policy. At a time when many national authorities are seeking to reform their systems, the initiatives of the Committee and the Governors fall on fertile ground. Furthermore, the very process of discussing reform in the Committee acts as a pressure for maintaining national interest in regulatory reform. How national reform would have proceeded without the international consultative process is impossible to determine, but it probably would have been slower.

International Cooperation in the EEC

"International cooperation in banking is proceeding independently in the European Economic Community. In December 1977 the Commission of the European Community adopted the EEC's first directive on the coordination of banking legislation. The Commission had originally proposed a directive which called for sweeping harmonization of member countries' supervisory and regulatory systems. The Bank of England, however, argued decisively against such a sweeping policy and persuaded the Commission, instead, to adopt the more gradual method of the Standing Committee. Thus the directive set out several principles and established an Advisory Committee of bank supervisory authorities to work toward cooperation among national authorities and the EEC. The work of the Community will be complemented by the continuing work of the Groupe de

Contact. Future EEC harmonization and supervisory cooperation in the Groupe de Contact might facilitate coordination through the Standing Committee.

Numerous Forces Are Promoting the Development of International Management

"A number of forces are encouraging the further development of international management. The changed perceptions of regulators – the fear of a work financial crisis, the recognition that in an interdependent banking system a crisis cannot be prevented without some level of cooperation – provide rational motives for cooperation. Pressure from the leading international banking powers, the United States and the United Kingdom, for some minimal level of consultation gives force to these rational interests. And international consultative mechanisms provide a forum and further pressure for cooperation.

"But equally important forces are working against management. Despite the interdependence of the world's banking systems, there remain important national differences. Different methods of supervision (the Bank of England's information consultations and the United States multi-agency system of formal reporting and inspection; difference in laws governing the activities of banks; the integration of deposit institutions and investment banking in many European countries and their separation in the United States) and different concepts of the role of public management of banking (the FDIC and the broad interpretation of the lender of last resort responsibility in the United States, and the absence of deposit insurance in most European countries along with a more narrow view of the role of the lender of last resort) all pose difficult obstacles to the establishment of any uniform regulatory system for international banking. Furthermore, the control of the banking remains a central element of national economic management and a prerogative which states are not yet ready to relinquish or adapt to international as opposed to national needs.

The Effect of Stringent Regulations

"An important competitive element in international banking also undermines international cooperation. Most regulatory authorities – and certainly the authorities whose banks are most active in international markets – are eager to enable their banks to compete effectively in international banking. In addition, some countries seek to encourage international banking centers in their territory by imposing few requirements on such activities. As long as some states (for whatever reasons) impose a few regulations on international banking in their territory or on the activities of their national banks, there will be the incentive for all banking authorities to allow their banks to compete on equal terms. More stringent regulation would impose costs which, argue bankers and regulators, would make national banks less able to compete internationally. Such an attitude has motivated the United States policy of imposing fewer restrictions on the international

activities of American banks than on their domestic activities. As a result, regulation of international banking sinks to the level of the lowest common denominator.

International Management Remains Limited to Informal Consultative Processes

"Because of national differences and the competitive dynamics of international banking, international management remains limited to informal consultative processes such as that of the central bank governors and the Standing (Cooke) Committee network. To be sure, such mechanisms are an important advance over the pre-1974 system. Through international consultation and greater national attention, it is now more likely that international banking problems will be identified and dealt with at an early stage. It is even possible that greater national attention to international banking may prevent some problems in the first place. But the management of international banking has a long way to go. Important gaps – in the lender of last resort responsibility, in policies of states in lending to illiquid or insolvent banks, in supervisory responsibility, and in the supervision of international risk – still exist. Whether those gaps will be filled remains to be seen. And if they are not filled, it remains to be seen whether existing mechanisms will be able to prevent or manage a future international banking crisis." (*The Failure of the Franklin National Bank: Challenge to the International Banking System*, New York: Columbia University Press, 1980, pp. 181-191.)

Transfer of Economic Sovereignty to the BIS

Concerning the management of the system and the transfer of economic sovereignty from nation-states to the BIS, the Institute of Finance at the New York University said:

"To solve the domestic economic and financial problems that give rise to external financial disequilibrium in a system of fixed exchange rates, any international organization would need control over such matters as monetary and credit policy in the countries whose currencies are to be stabilized. In other words, the functions traditionally exercised by the national central banks – taken over in some countries in recent years by the respective treasuries – would have to be transferred to the Bank for International Settlements if it were to be effectively responsible for international monetary equilibria. Such a surrender of authority is obviously out of the question at present. Yet, it should be clear that, without this surrender of authority, the Bank – or any other international institution, regardless of how organized – cannot move far toward the maintenance of basic international financial stability. (*The Bank for International Settlements*, Institute of Finance, Graduate School of Business, New York University, 1970, p. 35.)

International Management of the Banking System

International management of the banking system and crisis prevention and capability by government officials means that individuals and institutions are to be carefully trained to prevent the system from collapse or default on a global scale. Having been built upon an incredible shaky foundation of questionable premises and theories, the banking system and the international financial system are more capable of collapse than many people realize or that the bankers are willing to admit. In order to maintain and manage the system and prevent its demise, it is necessary for the large commercial banks as well as the central banks to have a global central bank and a lender of last resort. It will, as noted previously, require the surrender or acquiesce of economic sovereignty of the nation-states.

The People of the World Are Being Prepared for a New Global Society

Since sovereignty is such a touchy subject and the nations and people are reluctant to give up their economic freedoms to global bodies, it will require additional preparation of public opinion to be accomplished. This is currently underway and has been for decades. The people of the world are being prepared for convergence and amalgamation in a new global society. The BIS has played and will continue to play a major role in the transition and management of the new international banking and economic system as pointed out by Louis Rasminsky, a former Governor of the Bank of Canada:

"Central bankers have participated actively in the last year in the extensive discussions that have gone on concerning the next steps in the evolution of the international monetary system. These have focused on the means of making the creation of international reserves a matter of international responsibility. I believe that sooner or later we shall have to take a major step forward in providing the machinery for creating reserves by deliberate collective action...." ("The Role of the Central Banker Today," Par Jacobsson Lecture, Altieri Palace, Rome, Italy, November 9, 1966. The Per Jacobsson Foundation, International Monetary Fund, Washington, D.C., p. 35.)

For the foreseeable future the impressive network of machinery constructed by the international bankers will continue to operate.

17. Federal Reserve System – Controlling the Issuance of Money and Credit

Introduction

The framers of the American Constitution fashioned a political and economic system unequalled in the history of the world. The fundamental principle of the United States Constitution was individual sovereignty. The concept of natural rights and personal liberty were enthroned as the guiding principles of the new

Republic. The founders were also aware of the impossibility of establishing a constitutional republic without a constitutional monetary system. The United States Constitution gave the citizens of this nation the right to control the monetary system through elected representatives.

The Printing of Money Has Always Been in the Hands of a Private Monopoly

Article I, Section 8, Clause 5 of the United States Constitution gave Congress the power "To coin money, [and] regulate the value thereof..." An examination of monetary history in America reveals that this is the only clause of the entire Constitution which has never been fully implemented. Why? The answer lies in the realm of international banking. Beginning with the first Bank of the United States through the establishment of the Federal Reserve System in 1913 and to our day, the issuance or printing of money has been in the hands of private monopolies – the international bankers. Congress has exercised their constitutional prerogative to print money only once since the Republic was established and that was during the Civil War. The printing of money and control over it and credit has always been handled through private banking institutions or central banks.

The Concept of European Central Banking in Early America

The influence of the international bankers in America dates from the establishment of the Bank of England in 1694. The bankers who operated in London continued to urge control and domination of the colonies. The bankers, who were the real power of the British Empire, wanted the colonies under their control. The efforts during the pre-constitutional decades to persuade the colonies to adopt "paper currency" issued by the Bank of England was the predominant work of the bankers. When America declared its independence; won the revolutionary war; riveted the natural rights of mankind in the hearts of patriots throughout the world; and established a limited constitutional republic where the people retained sovereign control of the government, the bankers of London were, indeed, upset. Their entire system was based upon placing the power of finances in private hands. Governmental control was not to be in the people, but in the elite chosen by the powers of banking. The entire American system was philosophically opposite of the ideology of the bankers. Needless to say, the bankers of London sought to recapture America and its financial, economic and political system after the Revolutionary War. They were unable to prevent the adoption of the United States Constitution, however, they were able to set up America's early banking system and prevent the implementation of Article I, Section 8, Clause 5.

The History of Banking in the Early Colonies

Let us now briefly trace the history of the development of banking in the early American colonies. Concerning the colonial issuance of money, George Bancroft, a prominent historian of the 19th century, records:

"The first emissions of Provincial paper had its origin in the immediate necessities of Massachusetts; next, in times of peace, Provinces issued bills of credit, redeemable at a remote day, and put into circulation by means of loans to citizens at low rate of interest on the mortgage of lands. The bills***were made legal tender (by Colonial governments). The borrowers who received them paid to the state annual interest on his debt; and this interest constituted a public revenue, obtained it was boasted without taxation." (*History of the Colonization of the United States*, Vol. 2, Part 3, Chapter 15, p. 262.)

It is obvious from the previous quotations by Carroll Quigley that the international or merchant bankers in England were violently opposed to the control of money by governments. The reason for this is obvious. If the government or colonies in this instance, were to control the issuance of money, they could do so at little or no interest. The bankers, unable to privately manipulate the issuance of money would be unable to plunder the people and governments out of vast sums of interest. That is why the international bankers have misled the people of the world and especially government officials on finances and banking.

The Attempt by the Rothschilds to Control the Issuance of Money on the Early Colonies

Robert L. Owen, former Chairman of the Committee on Banking and Currency in the U.S. Senate, recorded the following attempt by the merchant bankers in England to control the issuance of money in the early colonies to their advantage:

"Benjamin Franklin, on being asked in Great Britain how he accounted for the prosperous condition of the Colonies, said:

"That is simple. It is only because in the Colonies we issue our own money. It is called colonial scrip, and we issue it in the proper proportion to the demand of trade and industry.'

"It was not very long until this information was brought to the Rothschilds' bank, and they saw that here was a nation that was ready to be exploited; here was a nation that had been setting up an example that they could issue their own money in place of the money coming through the banks. So the Rothschild Bank caused a bill to be introduced in the English Parliament which provided that no colony of England could issue their own money. They had to use English money. Consequently, the Colonies were compelled to discard their scrip and mortgage themselves to the Bank of England in order to get money. For the first time in the history of the United States our money began to be based on debt.

"Benjamin Franklin stated that in one year from that date the streets of the Colonies were filled with the unemployed, because when England exchanged with them, she gave the Colonies only half as many units of payment in borrowed money from the Rothschild bank as they had in scrip. In other words, their

circulating medium was reduced 50 percent, and everyone became unemployed. The poorhouses became filled, according to Benjamin Franklin's own statement.

"Mr. Franklin went further than that. He said that this was the original cause of the Revolutionary War. In his own language:

"The Colonies would gladly have borne the little tax on tea and other matters had it not been that England took away from the colonies their money, which created unemployment and dissatisfaction.' (*National Economy and the Banking System of the United States*, Senate Document No. 23, 76th Congress, 1st Session, January 24, 1939, Washington, D.C.: U.S. Government Printing Office, pp. 98-99.)

A Struggle between the Merchant Bankers and the Colonies

Thus we see that there was a constant struggle between the American colonies and the merchant bankers who exercised great control over the British government. The main issue was whether the Colonies should issue its own money or rely upon foreign financiers who would use their money to control the commerce and government.

Benjamin Franklin Fights for Colonial Control of Money

Benjamin Franklin spent his life time attempting to keep the power to issue money under the control of the colonies in America. Scarce British money made it necessary for the colonies to begin to emit "bills of credit" to allow for a sufficient medium of exchange for commerce and trade. These moves were always opposed by the bankers in England.

British financiers had attempted to gain control of the issuance of colonial money through the Board of Trade. A February 9, 1764 report of the Board of Trade attempted to point out the virtue of the gold standard and banker control of money. Franklin refused this report and stated:

"Any well founded credit, is as much an equivalent as gold or silver, and in some cases more so, or it would not be preferred by commercial people in different countries, not to mention again our own (AMERICAN) bank bills." (John Bigelow, editor, *Benjamin Franklin's Autobiography*, George Putnam's Sons, p. 217.)

Benjamin Franklin Was Well Aware of the Designs of Crafty Men in England

History records a determined effort by the financial and banking interests in London to force their money on the colonies and to enslave them in a system of debt. In all of Franklin's public life he labored for the independence of the colonies from England and the financial powers of the Old World. In a letter to Lord Kanes on January 1, 1769, he said:

"I am glad to find you are turning your thoughts to political subjects, and particularly to those of money, taxes,***and others. The world is yet much in the dark on those important points; and many mischievous mistakes are continually made in the management of them. Most of our Acts of Parliament for regulating them are, in my opinion, little better than political blunders, owing to the ignorance of science, or to the designs of crafty men who mislead the Legislature, proposing something under the specious appearance of public good, while the real aim is to sacrifice that to their private interests.

"The Act you inquire about had its rise thus; during the war [Indian wars in colonies] Virginia issued great sums of paper money for the payment of their troops, to be sunk in a number of years by taxes. ***The ministry and the parliament [British] came into the making of a general act, forbidding future emissions of paper money that should be legal tender in any colony whatever." (*Benjamin Franklin's Autobiography*, p. 217.)

Continental Congress Seeks to Control Money

The U.S. Continental Congress was aware of the financial designs of England and the merchant bankers. They made provisions that the Confederacy was to have power and control over their own money. Article 18 of the original Articles of Confederation stated:

"The United States assembled shall have the sole and exclusive right and power of determining on peace and war. ***Coining money and regulating this value thereof." (*History of the Articles of Confederation*, Boston: Thomas B. Wait, 1821, p. 297.)

Founding Fathers Create the U.S. Constitution

After the failure of the Articles of Confederation to satisfactorily unite the colonies, a series of steps were taken by George Washington, James Madison, Alexander Hamilton and others to bring about a convention to revise the government. The founders met in Philadelphia in the summer of 1787 and began the process of creating a new constitution. The results of their efforts – the U.S. Constitution – even surprised many of the delegates to the convention. Near the close of the Constitutional Convention, Franklin stated:

"I agree to the Constitution, with all its faults, if they are such; – because I think a general government necessary for us. ***I doubt, too, whether any other convention we can obtain may be able to make a better Constitution; for, when you assemble a number of men, to have the advantage of their joint wisdom, you inevitably assemble with those men all their prejudices, their passions, their errors of opinion, their local interests, and their selfish views.

"From such an assembly can a perfect production be expected? It, therefore, astonishes me, sir, to find this system approaching so near to perfection as it does, and I think will astonish our enemies, who are waiting with confidence to hear that our counsels are confounded like those of the builders of Babel. ***Thus I consent, sir, to this Constitution, because I expect no better, and because I am not sure that it is not the best.***

"I hope therefore for our own sakes, as a part of the people, and for the sake of our posterity, that we shall act heartily and unanimously in recommending this Constitution wherever our influence may extend, and turn our future thoughts and endeavors to the means of having it well administered." (John Bigelow, editor, *The Works of Benjamin Franklin*, New York: G. P. Putnam's Sons, 1904, Vol. XII, pp. 379-380.)

England's prime minister, William Gladstone, was later to remark:

"The American Constitution is the most wonderful work ever struck off at a given time by the brain and purpose of man."

Founding Fathers Placed a Special Clause in the U.S. Constitution to Prevent Bankers from Controlling the American Monetary System

Benjamin Franklin, James Madison and several other founders at the convention vividly remembered the terrible experience through which the colonies had passed when the English Parliament refused to allow them to create and issue their own money. Several of the founders, therefore, placed a special clause in the Constitution which would prohibit the international bankers or any banker from ever controlling money in America. Article 1, Section 8, Clause 5 states that Congress shall have power..."to coin money, regulate the value thereof, and of foreign coin...." An honest and debt free monetary system was created by the founders.

Monetary Clause Not Implemented by Congress

Article 1, Section 8, Clause 5 has been called one of the greatest constitutional principles ever enjoyed by the American people and yet it has never been fully implemented by Congress. From the time it was written until today, this unique clause has only been used once and then for only a very short duration under President Abraham Lincoln. (We will discuss Lincoln's efforts shortly.) Under this clause Congress and not the bankers were to create money for the nation.

Merchant Bankers Neutralize Article 1, Section 8, Clause 5

With independence won, a new constitution adopted and George Washington elected the nation's first president, the nation began a new era. However, the newly won political and economic freedom did not prevent the European bankers from

using their power, influence and intrigue in an attempt to neutralize Article 1, Section 8, Clause 5 of the Constitution. The merchant bankers had an extremely powerful and competent agent in America by the name of Alexander Hamilton. During the Constitutional Convention, Hamilton had favored a British monarchy in America, so one is not surprised to learn that he also favored the English banking system based upon the dishonest practices of the goldsmiths.

Alexander Hamilton Seeks to Create a Central Bank in America

Hamilton, with the aid of Robert Morris and others, had consistently been working for the creation of a privately owned central bank in America. In 1783, Hamilton and Morris had organized the Bank of America, however, when the secret leaked out that it was like the Bank of England and that they were utilizing goldsmith practices, a charter was refused to the bank.

Debate over the Bank of the U.S.

Hamilton, who became Secretary of the Treasury under Washington's administration, introduced a report to Congress in December of 1790, calling for the charter of a privately owned bank entitled the Bank of the United States. The bank charter became the center of debate in both houses of congress. Hamilton claimed the doctrine of implied powers gave Congress powers the founders never intended Congress to possess, such as chartering private banks. George Bancroft states:

"He [Hamilton] recommended a National Bank with a capital of ten or fifteen million dollars, to be paid one-third in hard money and the other two-thirds in European funds or landed security. It was to be erected into a legal corporation for thirty years, during which no other bank, public or private, was to be permitted. [A monopoly.] Its capital and deposits were to be exempt from taxation, and the United States collectively and particularly, were to become co-jointly responsible for all its transactions. Its sources of profit were to be the sole right of issuing a currency for the United States equal in amount to the whole capital stock of the bank.

"Quoting from Madison, 'The doctrine of implication [implied powers] is always a tender one. ***The danger of it has been felt by other governments. The danger was felt in the adoption of our own; the danger may also be felt if we do not keep close to our chartered authorities. ***

"If implications thus remote and thus multiplied may be linked together, a chain may be forged that will reach every objection of legislation, every object within the whole compass of political economy.

"It takes from our constituents the opportunity of deliberating on the untried measures, although their hands are also tied by the same terms. *** It invokes a

monopoly which affects the equal rights of every citizen." (Quote of James Madison, *The History of the Constitution of the United States*, New York: D. Appleton-Century & Co., 1893, 6th edition, Vol. 1, p. 31.)

Confrontation Over the Banking Issue

Concerning the period of confrontation over the banking issue, Professor Lance Banning records:

"...In 1789, when he agreed to serve in Washington's cabinet, Thomas Jefferson declared himself more nearly a Federalist than not. No one, of course, had a more important part in the creation of a vigorous central government than Jefferson's friend, Madison. During the first year of the new government, while Jefferson made his way back from France, Madison acted as congressional leader of the forces who meant to assure a strong and independent executive power. He parted with the administration only on the questions of discrimination and national assumption of the debt, policies that Virginians considered sectionally unjust. On these issues, however, both Madison and Jefferson were willing to compromise for the sake of federal union.

Madison and Jefferson Opposed Hamilton's Proposal for a National Bank

"The two Virginians did not move firmly into a more general opposition until they were confronted with Alexander Hamilton's proposal for a national bank. Then, already troubled by what seemed to them a growing sectional bias in the laws, they saw in the broad construction of federal powers which Hamilton advanced in support of the Bank a powerful blow at the barriers against an indefinite expansion of federal authority and, with it, the enhancement of the dangerous power of a northern majority. In response they demanded a narrow interpretation of constitutional limitations on federal authority.

Controversy Over the Constitutional Interpretation Advanced in Defense of a National Bank

"Significantly, it was not the Bank itself so much as the constitutional interpretation advanced in its defense that was the original focus of the Virginians' concern. Their fears were unashamedly sectional, but they were also something more than that. From the beginning, more was implicit in Jeffersonian strict constructionism than the particularistic defense of local interests usually associated with a doctrine of states' rights.

The Balance of Constitutional Powers Between the Nation and the States

"The balance of constitutional powers between the nation and the states, like the balance within the federal government between executive and legislative branches, was part of the equilibrium on which liberty and stability were thought to depend.

Deviation from this equilibrium-change in any form – was constitutional corruption, a danger to the foundations of the state.

Madison's Defense of the Residual Powers of the People and the States

"For Madison, accordingly, defense of the residual powers of the people and the states was no less a duty than his earlier defense of executive independence against the threat of encroachment by the legislative branch. Hamilton's broad construction of federal powers endangered not just southern interests but the fragile balance that assured a republican state. It was one of several signals that touched an alarm.

A True Political Party Began to Form

"Already the character of the Virginians' opposition had begun to change. At first, Jefferson and Madison feared a sectional injustice, and they concentrated their objections on specific policies and on the danger of deviation from the original balance between the nation and the states. Meanwhile, a growing number of newspaper writers and congressional critics were beginning to sense in Federalist policy a subtler and more general kind of threat. A common train of worries seems to have occurred independently to men in various stations in different parts of the country, old Federalists and Antifederalists alike. It made little difference where they had stood in 1789. All were gradually attracted to an interpretation of events and definition of concerns that reflected the inherited ideology. In this process of definition, self-justification, and appeals for popular support, a true political party began to form.

The Subversion of Legislative Independence Over the Course of the Eighteenth Century by an Ambitious Executive

"Over the course of the eighteenth century generations of English oppositionists had analyzed a special kind of constitutional corruption until all but the most illiterate could mark its every stage. The basic mechanism of this corruption was the subversion of legislative independence – and therefore balanced government – by an ambitious executive through the calculating use of offices, pensions, and titles to suborn the members of the legislature. The usual accompaniments of executive influence were standing armies, rising taxes, chartered corporations, and an enormous public debt.

Governing by Debt – a Technique of Constitution Subversion

"No technique of constitutional subversion was more insidious than 'governing by debt.' Since the early eighteenth century a great public debt, with a chartered bank and other privileged corporations, had been identified by English opposition writers as a mechanism designed to extend the influence of a scheming ministry from Parliament into the country at large. Like parliamentary placemen, members

of privileged corporations and holders of the debt depended for their livelihoods on the continuing favor of the government.

Paper Men Preying on the Public Treasury Drained a Nation of Its Wealth

"These 'paper men' were not independent citizens, who could be trusted with the liberty of others, but creatures of the executive will. Preying on the public treasury in exchange for their support of the ministry, they drained a nation of its wealth. Parading their dishonesty, their subservience, and their unearned riches, these servants of corruption made a mockery of decency and honest work.

The Way in Which an Ambitious Ministry Could Both Establish and Mask a Tyranny

"The power of their riches and the influence of their licentious example undermined the virtuous habits of an entire commonwealth, whose people were thus impoverished and made fit subjects for despotism. With its servants in the legislature and its 'paper men' outside, an ambitious ministry could both establish and mask its tyranny.

Americans of 1789 Anticipated Certain Specific Measures in Any Conspiratorial Plot to Subvert Republican Government

"Reared on a diet of opposition writings, many Americans of 1789 anticipated certain specific measures in any conspiratorial plot to subvert republican government, certain typical stages in any process of constitutional decay. When the new Constitution was established, in the midst of many warnings of a plot, Americans of both Federalist and Antifederalist persuasion watched every step with conscientious suspicion, fearing executive influence, distrusting a regular army, uncertain how to handle the public debt.

Hamilton Recreated the Essentials of English Governmental Finance

"These fears were explosives to which Hamilton gradually laid a fuse. Recreating the essentials of English governmental finance, he struck men's sensitivities in their sorest point. Step by step he presented them with a threat they had to recognize, a danger which ultimately justified their anxieties. Uneasiness with the tone and tendency of the Federalists' social style and concern for sectional interests came together with a fear of executive influence on the legislature and a sense of danger to the moral foundations of republican life to suggest a consistent interpretation of administration policy and a frightening analysis of the course of the infant state.

Suspicious of a Conspiracy to Restore Mixed Monarchy to the United States

"By the end of the 1792 the administration confronted a determined opposition which challenged its policies on fundamental grounds. As the full range of Hamilton's economic policy gradually became clear, Jefferson and Madison and a growing number of other critics in Congress and the press could scarcely avoid a conspiratorial conclusion. United with suspicions of a conspiracy to restore mixed monarchy to the United States, the old English criticism of government by money and executive attempts to undermine the constitution again became the core of a consistent ideology of opposition to the men in power. In a process too complicated to summarize in detail, the English opposition theory which had provoked so many worries provided a model for an American version of 'country' ideology.

Alexander Hamilton Was Viewed as a Prime Minister by Opponents

"Reviving the old ideas, opponents charged that Hamilton was another Walpole, a 'prime minister' whose economic program created in Congress and in the country a 'phalanx' of stockholders and bank directors who were committed by their economic interests to follow his every command.

Stockholders and Bank Directors in Congress Were Servants of the Executive Branch

"Stockholders and bank directors in Congress were servants of the executive branch, whose presence in the legislature destroyed its independence, endangered balanced government, and subverted the popular will.

The Core for a New Aristocracy

"In the country at large, hordes of avaricious speculators and 'paper creatures' of the executive fattened on public spoils, mocking virtuous habits and forming the dissolute and privileged core for a new aristocracy.

Hamilton Was Directing an Elaborate and Effectual Conspiracy to Create a Government of the British Sort

"With the aid of these creatures Hamilton was directing an elaborate and effectual conspiracy to create a government of the British sort. The goal of this Federalist conspiracy could be summarized in a word. That word was 'liberticide.'

Condemnation of a Carefully Contrived Conspiracy to Destroy Republican Government

"Careful study of the public writings of the 1790s – pamphlets, broadsides, and newspaper articles – will demonstrate that condemnation of a carefully contrived

conspiracy to destroy republican government was the central accusation in the republican indictment of Federalism. The evidence suggests that party leaders believed in the actuality of this conspiracy and that they used this convicting to define their character to themselves as well as to appeal successfully for popular support. ("Republican Ideology and the Triumph of the Constitution, 1789 to 1793," *William and Mary Quarterly*, Vol. 31, 1974, pp. 167-188.)

Debate Over the Bank Bill in the U.S. Senate

The Bank Bill passed the House of Representatives with a majority of 19 votes. William McClay, a U.S. Senator from Pennsylvania, recorded the Senate contest over the bank charter as follows:

"December 24 (month before dates above). Yesterday the Secretary of the Treasury's Report on the subject of a National Bank was handed us, and I can readily see that a bank will be the consequence. considered as an aristocratic engine, I have no great predilection for banks. They may be considered, in some measure, as operating like a tax in favor of the rich, against the poor, tending to the accumulation (of money) in a few hands; and under this view may be regarded as opposed to Republicanism.

"Jan. 14, Friday. This day the bank engaged us to the hour of adjournment. It was limited to 20 years. Mr. Morris (friend of Hamilton) had yesterday declared that the public ought to subscribe on the same terms as other individuals. It was not so in the Bill. I showed him an amendment to this purpose and asked him to support me in it. He said Schuyler had told him Hamilton said it (The bank Bill) must not be altered, but concluded 'I will speak to Hamilton.'

"Jan. 17, Monday. I told them plainly that I was no advocate of the banking system; that I considered them as machines for promoting the profits of unproductive men; * * * that the whole profit of the bank ought to belong to the public, provided it was possible to advance the whole stock on her account. * * * But I must remark that the public was grossly imposed upon in the present instances. While she advanced all specie; individuals advanced three-fourths in certificates, which were of no more value in the support of the bank than so much stubble. Besides, the certificates were all under interest already, and it was highly unjust that other paper (money) should be issued on their credit which bore a premium and operated as a further tax on the country.

"Jan. 18, Tuesday. This day the Bank Bill was taken up again. I feel much reluctance to minute anything on this subject. I never saw the spirit of speculation display itself in stronger color. Indeed, the guise of regard for the interest of the public was not preserved.

"Jan. 20, Thursday. I sincerely wish to derive a benefit to the public from the bank: * * * the public are * * * in the hands of the moneyed interests. * * *"

(Edgar W. McClay, editor, *The Journal of Wm. McClay, United States Senator from Pennsylvania, 1789*, New York: D. Appleton & Co., 1890, pp. 355, 368, 371.)

The Bank also passed the Senate. It was then sent to President Washington for his signature. During the debate over the Bank of the United States, Thomas Jefferson, Secretary of State, was asked by President Washington to prepare a paper on the constitutionality of a Bank of the United States. Jefferson did prepare a report, however it was entitled: "On the Unconstitutionality of a Bank of the United States." The report stated:

"The Bill for establishing a National Bank undertakes among other things: –

1. – To form the subscribers into a corporation.
2. – To enable them in their corporate capacity to receive grants of land; and so far is against the laws of mort-main. (Though the Constitution controls the laws of Mortmain so far as to permit Congress itself to hold land for certain purposes, yet not so far as to permit them to communicate a similar right to other corporate bodies.) Parentheses by Jefferson.
3. – To make alien subscribers capable of holding lands; and so far is against the laws of Alienage.
4. – To transmit these lands, on death of a proprietor, to a certain line of successors; and so far changes the course of Descents.
5. – To put the lands out of reach of forfeiture and escheat; and so far is against the laws of Forfeiture and Escheat.
6. – To transmit certain chattels to successors in a certain line; and so far is against the laws of Distribution.
7. – To give them the sole and exclusive right of banking under the national authority; and so far is against the laws of Monopoly.
8. – To communicate to them a power to make laws paramount to the laws of the states; for so they must be construed; to protect the institution from the control of the State Legislatures; and so, probably, they will be construed.

"I consider the foundation of the Constitution as laid on this ground; That 'all powers not delegated to the United States by the Constitution nor prohibited by it to the States, are reserved to the states, or to the people.' (X Amendment).

"To take a single step beyond the boundaries thus specifically drawn around the powers of Congress is to take possession of a boundless field of power no longer susceptible of any definition.

"The Incorporation of a bank and the powers assumed by this Bill, have not, in my opinion, been delegated to the United States by the Constitution.

"The Bill delivers us up bound to the National Bank, who are free to refuse all arrangements, but on their own terms, and the public not free, on such refusal, to employ any other bank." (*Writings of Jefferson*. Edited by H. A. Washington, H. W. Derby, N.Y., 1861, Vol. 7.)

James Madison's Veto Message on the Bank of the United States

President Washington also asked James Madison to prepare a veto message in case he decided to use it against the Bank Bill. Madison's veto message read in part:

"I object to the Bill because it is an essential principle of the Government that powers not delegated by the Constitution cannot be rightfully exercised; because the power proposed by the Bill to be exercised is not expressly delegated.

"I object to the Bill because it appears to be unequal between the public and the Institution, in favor of the Institution; imposing no conditions on the latter equivalent to the stipulations assumed by the former.

"I object to the Bill because it is in all cases the duty of the Government to dispense its benefits to individuals with as impartial a hand as the public interest will permit. * * *" (*The Writings of James Madison*. Edited by Gaillard Hunt, G. P. Putnam's Sons, N. Y., Vol. 6, pp. 41-42.)

President Washington Signs the Bank Bill

The President refused to sign the Bank Bill immediately because he was uncertain as to its constitutionality, however, a great deal of pressure was brought upon him and a smear campaign was launched, etc. The President did finally sign the bill reluctantly and the Bank of the United States secured a 20 year charter. It would expire in 1811.

Alexander Hamilton's Position on the Bank of the United States

Perhaps it is advisable to look briefly at several statements Alexander Hamilton made which outlined his basic monetary policy:

"It is a well established fact, that banks in good credit can circulate a far greater sum than the actual quantum of their capital in gold and silver. The extent of the

possible excess seems indeterminate; though it has been conjecturally stated at the proportion of two and three to one. This faculty is produced in various ways:

1. – A great proportion of the notes which are issued and pass current as cash are indefinitely suspended in circulation from the confidence which each holder has that he can, at any time, turn them into gold and silver.

2. – Every loan which a bank makes is, in its first shape, a credit given the borrower on its books, the amount of which it stands ready to pay, either in its own notes, or in gold and silver, at his option. But in a greater number of cases, no actual payment is made in either. The borrower frequently, by check or order, transfers his credit to some other person, to whom he has a payment to make, who, in turn, is as often content with a similar credit, because he is satisfied that he can, whenever he pleases, either convert it into cash, or pass it to some other hand as an equivalent for it. And in this manner the credit keeps circulating, performing in every stage the office of money, till it is extinguished by a discount with some person who has a payment to make to the bank, to an equal or greater amount. Thus, large sums are lent and paid, frequently, through a variety of hands, without the intervention of a single piece of coin.

3. – There is always a large quantity of gold and silver in the repositories of the banks, besides its own stock, which is placed there with a view partly to its safe keeping * * * which is itself a source of general accommodation. These deposits are of immense consequence in the operation of a bank. Though liable to be redrawn at any moment, experience proves that the money so much oftener changes proprietors than places, and that what is drawn out is generally so speedily replaced, as to authorize the counting upon the sums deposited, as an effective fund, which, concurring with the stock of the bank, enables it to extend its loans, and to answer all the demands for coin, whether in consequence of those loans, or arising from the occasional return of its notes.

"* * * this is of the properties of banks to increase the active capital of a country.

"If the supposition of a deficiency (of money) be in any degree founded and some aid to circulation be desirable, it remains to inquire what ought to be the nature of that aid.

"The emitting of paper money by the authority of the government is wisely prohibited to the individual States by the National Constitution; and the spirit of that prohibition ought not to be disregarded by the Government of the United States.

"Though paper emissions, under a general (Federal) authority, might have some advantage not applicable (To State emissions), and be free from some disadvantages which are applicable to the like emissions by States, separately, –

yet they are of a nature so liable to abuse – and, it may be affirmed, so certain of being abused – that the wisdom of Government will be shown in never trusting itself with the use of so seducing and dangerous an expedient." (John C. Hamilton & John C. Hamilton, editors, *Hamilton's Works*. Published by order of The Joint Library Committee, N. Y., Vol. 13, pp. 108, 110, 124.)

Jefferson Argues That the Policies of the Merchant Bankers Will Ruin America

Jefferson felt that Hamilton's promotion of British banking, finance and governmental methods were destined to ruin the nation. In a letter to George Washington in 1792, he said:

"That I have, utterly, in my private conversations disapproved of the system of the Secretary of the Treasury, Alexander Hamilton, I acknowledge and avow; and this was not merely a speculative difference.

"His system flowed from principles adverse to liberty and was calculated to undermine and demolish the republic by creating an influence in his department over the members of the Legislature. I saw this actually produced, and its first fruits to be the establishing of the great outlines of his project by the votes of the very persons who, having swallowed his bait, were laying themselves out to profit by his plans; and that had these persons withdrawn as those interested in a question ever should, the vote of the disinterested majority was clearly the reverse of what they made it.

"These were not longer, then, the votes of the Representatives of the people, but deserters from the rights and interests of the people." – Jefferson. (*Life and Writings of Jefferson*. Edited by L. E. Forman, Bobbs, Merrill Co., Indianapolis, Vol. 8, p. 239.)

The Financial Powers Neutralize a Key Clause of the Constitution

The financial powers in London and New York had succeeded in neutralizing Article 1, Section 8, Clause 5. They had successfully corrupted part of Congress and gained control over the issuance of money in the United States. The stage was thus being set for England to re-establish control over its former colonies. Congress and the people of the new states had been deceived by the merchant bankers and their agents in America. John Adams, perhaps, outlined the reason for this deception when he said:

"All the perplexities, confusion, and distress in America arise, not from defects in the Constitution or confederation, not from want of honor and virtue, so much as from downright ignorance of the nature of coin, credit and circulation." (A letter from John Adams to Thomas Jefferson in 1787. Quoted in Robert L. Owen's *National Economy and the Banking System of the United States*, Senate Document,

No. 23, 76th Congress, 1st Session, January 24, 1939, p. 99, U.S. Government Printing Office, Washington, D.C.)

Thomas Jefferson Elected President of the United States

The Federalists ruled the nation for three terms. In 1801 Thomas Jefferson was elected President in a revolution he considered as important as those of 1775. Jefferson and his party had feared that the nation and the Constitution were being subverted. A majority of the voters felt it was time to entrust the government to the republicans. The election of Jefferson was a very critical part of America's early history. The nation was leaning toward England again and many felt that Jefferson could rescue the Republic. Jefferson had a sincere interest in saving the country from the British monopolists which were gaining power. Although the Bank of the United States had been operating for several years, Jefferson renewed his attack upon the bank during his first administration.

Jefferson Attacks the Bank of the United States

In a report to the Secretary of the Treasury in 1803, President Jefferson said:

"This institution (The United States Bank) is one of the most deadly hostilities existing against the principles of our Constitution.

"The nation is, at this time, so strong and united in its sentiments, that it cannot be shaken at this moment. But suppose a series of untoward events should occur sufficient to bring into doubt the competency of a Republican Government to meet a crisis of great danger, or to unhinge the confidence of the people in the public functionaries, an institution like this, penetrating by its branches every part of the Union, acting by command and in phalanx, may in a critical moment upset the government.

"I deem no government safe which is under the vassalage of any self-constituted authorities, or any other authority than that of the nation, or its regular functionaries.

"What an obstruction could not this bank of the United States with all its branch banks be in time of war? It might dictate the peace we should accept or withdraw its aid. Ought we then to give further growth to an institution so powerful, so hostile? That it is hostile we know:

1. – From a knowledge of the principles of the persons composing the body of directors in every bank, principle or branches, and those of most of the stockholders;

2. – From their opposition to the measures and principles of government, and to the election of those friendly to them; and

3. – From the sentiments of the newspapers they support.

"Now, while we are strong, it is the greatest duty we have to the safety of our Constitution, to bring this powerful enemy to a perfect subordination under its authorities.

"The first thing would be to reduce them to an equal footing only with other banks, as to the favors of the government. But in order to be able to meet a general combination of the banks against us, in a critical emergency, could we not make a beginning toward an independent use of our own money, towards holding in our own bank all the deposits where it is received, and letting the treasurer give his draft or note, for payment at any particular place, which in a well conducted government, ought to have as much credit as any private draft, or bank note, or bill, and would give us the same facilities which we derive from the banks." (L. E. Forman, editor, *Life and Writings of Jefferson, Indianapolis: Bobbs, Merrill Co., Vol. 8, p. 146.*)

The Evils of the English Banking System

Throughout his long career, Jefferson preached against the evils of the English banking system. Let us look at several letters which demonstrate his feelings on this controversial issue.

In a letter to Albert Gallatin in October of 1815, Jefferson stated:

"Put down the banks, and if this country could not be carried through the longest war against her most powerful enemies, without ever knowing the want of a dollar, without depression, and without dependence on the traitorous classes of citizens, without bearing hard on the resources of the people, or loading the public with an indefinite burden of debt, I know nothing of my countrymen.

"Not by any novel project, not by any charlatanerie, but by the ordinary and well experienced means; by total prohibition of all private paper (bank notes) at all times, by reasonable Taxes in war aided by the necessary emissions of public paper of circulating size, this bottomed on special taxes redeemable annually as this special tax comes in, and finally paid within a moderate period.

Bank Paper Must Be Suppressed

"National Currency, Bank Paper. – The question will be asked and ought to be looked at, what is to be the resource if loans cannot be obtained? There is but one 'Carthaga delenda est.' Bank paper must be suppressed, and the circulating medium must be restored to the nation to whom it belongs.

"...It is the only fund which they can rely for loans; it is the only resource which can never fail them and it is an abundant one for every necessary purpose. Treasury

Bills, bottomed on taxes, bearing or not bearing interest, as may be found necessary, thrown into circulation will take the place of so much gold and silver, which last (hard money) when crowded will find an efflux into other countries, and thus keep the quantum of medium (currency) at its salutary level." (John P. Foly, editor, *Jefferson Cyclopedia*, New York: Fund & Wagnalls Co., p. 601.)

Congress Should Exercise Control

A letter to Thomas Cooper in 1814: "National Currency, Congressional Control. – From the establishment of the United States Bank, to this day, I have preached against this system, and have been sensible no cure could be hoped but in a catastrophe now happening. The remedy was to let banks drop gradually at the expiration of their charters and for the state governments to relinquish the power of establishing others. This would not as it should not, have given the power of establishing them to Congress. But Congress could then have issued Treasury Notes payable within a fixed period, and funded on a specific tax, the proceeds of which as they came in, should be exchangeable for the Notes of that particular emission only." (*Ibid.*, p. 604.)

The Aristocracy of Our Moneyed Corporation

A letter to George Logan in November of 1816: "Banks, Aristocracy. – I hope we shall * * * crush in its birth the aristocracy of our moneyed corporations, which dare already to challenge our government to a trial of strength, and bid defiance to the laws of our country." (*Ibid.*, p. 73.)

A letter to Dr. J. B. Stuart in 1817: "The bank mania * * * is raising up a moneyed aristocracy in our country which has already set the government at defiance, and although forced at length to yield a little on this first essay of their strength, their principles are unyielded and unyielding.

"These (principles) have taken deep root in the hearts of that class from which our legislators are drawn. * * * and thus, those whom the Constitution had placed as guards to its portals, are sophisticated, or suborned (perjury by bribes or persuasion) from their duties." (*Ibid.*, p. 685.)

Merchant Bankers Seek to Crush Treasury Notes

A letter to Jean Baptiste Say in 1815: "The government is now issuing Treasury Notes for circulation, bottomed on solid funds and bearing interest. The banking confederacy – and the merchants bowed to them by their debts – will endeavor to crush the credit of these notes; but the country is eager for them, as something they can trust to, and as soon as a convenient quantity of them can get into circulation, the bank notes must die." (*Ibid.*, p. 604.)

A letter to W. H. Crawford in February of 1815: "National Currency. Redemption. Treasury Notes of small as well as high denomination, bottomed on a tax which would redeem them * * * would place at our disposal the whole circulating medium of the United States, a fund of credit sufficient to carry us through any probable length of war." (*Ibid.*, p. 605.)

A Money Power Is Emerging in America

A letter to Dr. Josephus B. Stewart on copying British commercial and banking policies:

"I hope with you that the policy of our country will settle down with as much navigation and commerce only as our own exchanges will require, and that the disadvantages will be seen of our undertaking to carry on that of other nations. This, indeed, may bring gain to a few individuals, and enable them to call off from our farms more laborers to be converted into lackeys and grooms for them, but it will bring nothing to our country but wars, debts and dilapidation.

"This has been the course of England, and her examples have fearful influence on us. In copying her (England) we do not seem to consider that like premises induce like consequences.

"The bank mania is one of the most threatening of these imitations. It is raising up a monied aristocracy in our country which has already set the government at defiance.

"I exclude England from this confederacy, because her selfish principles render her incapable of honorable patronage or disinterested co-operation; unless, indeed, what seems now improbable, a revolution should restore to her an honest government, one which will permit the world to live in peace." (H. A. Washington & H. W. Derby, editors, *The Writings of Thomas Jefferson*, published by order of the Joint Committee of the Library of Congress, N.Y., 1861, Vol. 7.)

The Issuing of Money Should Be Taken from the Banks and Restored to Congress

Thomas Jefferson was no friend to the English banking system and to England's political system. His most famous statement against the system of the goldsmiths reads as follows:

"If the American people ever allow the banks to control the issuance of their currency first by inflation and then by deflation, the banks and corporations that will grow up around them will deprive the people of all property until their children will wake up homeless on the continent their fathers occupied. The issuing power of money should be taken from the banks and restored to Congress and the people to whom it belongs. I sincerely believe the banking institutions are more

dangerous to liberty than standing armies." (Gerald G. McGeer, *Conquest of Poverty, Gardenvale, Quebec: Garden City Press, 1935, p. 208.*)

The Charter of the Bank of the United States

On March 4, 1809, James Madison became the fourth president of the United States. Efforts were begun to suppress the banking monopoly which has been established as a result of the chartering of the first Bank of the United States. The bank's charter was up in 1811. Several prominent leaders of the Republican Party, including Madison, were aware of the grave mistake of giving a private institution such tremendous power. They seemed to be aware of the statement made by Mayer Anselm Rothschild in 1790. He had said:

"Permit me to issue and control the money of a nation, and I care not who makes its laws." (*Ibid.*, Robert L. Owen, Senate Document No. 23, p. 99.)

The Bank Stock for the Bank of the U.S. Was Held in England

Congress and the President were determined not to grant the Bank of the United States a second charter. One history book records:

"The charter of the United States Bank expired by limitation in 1811, and Congress refused to recharter the old bank or to charter a new one.

"The opposition (of Congress) to a National Bank was based on the old Constitutional grounds which had been put forward by Jefferson at the time of the chartering of the first Bank of the United States.

"Another reason, it was stated, was that the bank stock was largely held in England, it being a fact that the United States Government had disposed of its shares in the institution (bank) to English investors." (*The American Nation History Series, New York: Harper, Vol. 12, p. 266.*)

Madison's Veto Message

President Madison's veto message of the Bank Bill reads in part as follows:

"Waiving the question of the Constitutional authority of the Legislature (Congress) to establish an incorporated bank * * * precluded in my judgment by repeated recognitions * * * of the validity * * * in Acts of the Legislature, Executive and Judicial branches of government * * * The proposed bank does not appear to be,

1. – calculated to answer the purposes of reviving the public credit,
2. – of providing a national medium of circulation,

3. – of aiding the Treasury by facilitating * * * anticipating of the revenues, and
4. – by affording to the public more durable loans.

"On the whole when it is considered that the proposed establishment (bank) will

1. – enjoy a monopoly of the profits of a National Bank for a period of twenty years;
2. – that the monopolized profits will be continually growing with the progress of the national population and wealth;
3. – and that the nation will, during the same period, be dependent on the notes of the bank for the species of circulating medium whenever the precious metals may be wanted; and
4. – at all times (will the nation be dependent on the notes of the bank) for so much thereof as may be an eligible substitute for a specie medium; and
5. – and that the extensive employment of the notes (bank) in the collection of the augmented taxes will, moreover, enable the banks greatly to extend its profitable issues of them (bank notes) without the expense of specie capital to support their circulation;

it is as reasonable as it is requisite that the government, in return for these extraordinary concessions to the bank, should have a greater security for attaining the public objects of the institution than is presented in this Bill * * *." (Gaillard Hunt, editor, *The Life and Writings of James Madison, 1808-1819*, by Gaillard Hunt, New York: G. P. Putnam's Sons, 1908, Vol. 8, p. 327.)

The Merchant Bankers Use War to Preserve their Money System in America

It appears that Madison and others in the colonies underestimated the powers of the merchant bankers in England. They were not about to give up their power to control and issue money without a fight, even if it meant a war. The English Parliament which had always been subservient to the Bank of England and the merchant bankers launched the War of 1812 after an unsuccessful attempt to renew the bank charter.

During the War of 1812, the British burned the city of Washington and the Capitol. Government leaders fled the city. A general disruption of the country and economy occurred.

It is important to note that the Revolutionary War took place after the British were unable to control the colonies through the Board of Trade and the issuance of money. It was no coincidence that the War of 1812 was started after Congress

refused to renew the charter for the Bank of the United States. It appears that certain merchant bankers or international bankers will go to war if necessary to pressure their monopolistic practice of controlling the issuance of money and the collection of interest on debt. Needless to say, the bank charter was renewed on April 10, 1816. It was given another 20 year charter. The war had impoverished the colonies and the Bank of England came to the rescue.

President Andrew Jackson Attacks the Merchant Bankers

Probably no president has been more maligned by historical revisionists of late than Andrew Jackson. Perhaps it is safe to say no one president, with the exception of President Abraham Lincoln, ever challenged the merchant bankers and the banking system as Jackson. It is an understatement to say that Jackson was opposed to the concentration of economic power in the hands of the bankers. President Jackson lost little time in attacking the international bankers of his day. In his first Inaugural Address he stated:

"As the Charter of the Bank of the United States will expire in 1836, and its stockholders will most probably apply for a renewal of their privileges; in order to avoid the evils resulting from precipitancy in a measure involving such important principles and such deep pecuniary interests, I feel that I cannot in justice to our constituents and to the parties interested too soon present it to the deliberate consideration of the Legislature and the people.

"The constitutionality of this law has been well questioned * * * because it grants to those who hold stock exclusive privileges of a dangerous tendency. Its expediency is denied by a large portion of our citizens * * * and it is believed none will deny that it has failed in the great end of our establishing a uniform and sound currency throughout the United States." (John Spencer Bassett, editor, *Correspondence of Andrew Jackson*, Carnegie Institution of Washington, 1929-32, Vol. 4.)

President Jackson's Opinion on the Bank of the United States

In January of 1832, President Andrew Jackson issued the following opinion on the second Bank of the United States:

"The great point to be steadily kept in view is the establishment of the General Government and the Sovereign Powers granted to it by the People and the States.

1. – All sovereign power was in the people and the states.
2. – Where sovereignty is vested it cannot be divested but by express grant, therefore, as the General Government is based upon the Confederation of the Sovereign States, you must look into the Constitution for the grants of sovereignty made by the people inhabiting those sovereign states to find what portion of

sovereign power has been granted to the General Government; for, no sovereign power not expressly granted can be exercised by implication.

"Is the sovereign power to grant corporations expressly given to the General Government to be found in the Constitution? I answer, no. Therefore, as all powers granted are general and national, not local, or for local objects, and all powers not delegated * * * are retained to the states and to the people, a corporation or monopoly cannot be granted by Congress beyond the limits of the ten mile square, and it is fair to advert to the Journal of the Constitutional Convention to prove that the power to grant corporations in various ways was attempted to be introduced in the Constitution, and was rejected in every form presented by the (Constitutional) Convention who framed it.

"It is, therefore, worse than idle to contend that Congress can have this sovereign power by implication when it was rejected in the convention, and when sovereign power can only be conveyed from one power to another by express grant.

"If it is true that necessity gives the power to Create Banks and corporations, it is true necessity creates its own law, but it must be a positive necessity, not a feigned one. * * * The framers (of our Constitution) were too well aware of the corrupting influences of a great monied monopoly upon government to legalize such a corrupting monster by any grant either express or implied in the Constitution.

"Bank corporations * * * are brokers on a large scale, and could it be really urged that the framers of the Constitution intended that our Government should become a Government of brokers? If so, then the profits of the National Brokers Shop must enure to the benefit of the whole people, and not to a few privileged monied capitalists, to the utter rejection of the many." (*Ibid.*, p. 92.)

President Jackson's Second Paper on the Bank of the United States

President Jackson's views were not only opposed by the banking community, but even by his own Secretary of the Treasury. Jackson subsequently prepared a paper on the second bank of the United States for his cabinet. That paper was summarized by John Spencer Bassett as follows:

"He (President Jackson) entertains * * * serious doubts whether it is possible to preserve that high degree of purity and simplicity which constitute the only sure foundation of Republican institutions from the corrupting influences of such an incorporation (the bank); and he is therefore strongly inclined to the opinion that, even in the absence of constitutional difficulty, the objections to it (the bank) arising from this source alone would more than counterbalance all the advantages which might be anticipated from the continuance of that which now exists.

"That allegations of the aristocratical tendencies of our institutions, and their progress, are often thrown out to promote selfish and sinister ends is quite probable; but it is not the less undeniable that such is the inherent vice of every political system, and too much vigilance and self denial cannot be exercised to restrain the sinister aspirations of wealth, and check the growth of authority so unfriendly to the liberal government and the just rights of the people.

"Reason suggests and experience confirms the position that nothing has a stronger tendency to engender an aristocratical spirit, or to sustain it when it has once acquired a foothold in a community, than extensive monied corporations with their appendages of exclusive privileges. The Divine Right of Kings, and the prerogative of authority of rulers have failed before the intelligence of the age. * * * The mass of people have more to fear from combinations of the wealthy and professional classes – from an aristocracy which, through influence of riches and talents, insidiously employed, succeeds in preventing political institutions, however well adjusted, from securing the freedom of the citizen, and in establishing the most odious and oppressive government under the forms of a free Constitution.

"The misnamed American (banking) system is this British system of corrupt influence in Embrio. A bank with power over currency and commerce; over people and their Representatives * * * may well be considered as forming a sure lodgement for a dangerous aristocratic influence in this country.

The Bank of the United States Is a Government Unto Itself

"The Bank of the United States is in itself a government which has gradually increased in strength from the day of its establishment. The question between it and the people has become one of power – a question which its adherents do not scruple to avow must ultimately be decided in favor of the bank. Insulting to the country as this boast is, it is not altogether without foundation. The Bank has by degrees, obtained almost entire domination over the circulating medium, and with it, power to increase or diminish the price of property and to levy taxes on the people in the shape of premiums and interest to an amount, only limited by the quantity of paper currency it is enabled to issue.

A Tremendous Concentration of Power in the Bank of the United States

"But the greatest danger from the vast irresponsible power concentrated in the hands of the President of the Board of Directors is to be apprehended from the possible co-operation of the aristocracy of incorporated wealth with an official aristocracy, which, having succeeded in obtaining the administration of public affairs, might be disposed to increase and perpetuate its political power.

"It is a natural instinct of wealth and power to reach after new acquisitions, and to aid each other in removing all checks and obstacles devised by caution of enlightened communities to guard against their encroachment.

"It was to arrest them (encroachment of powers) that our Fathers periled their lives; – to guard against them in all future time was their object in framing the system of Government which they devised for their posterity. * * * Brief as has been the career of this Government, its history already furnishes examples to confirm the experience of other Republics. Usurpation was attempted in its infancy, and the Bank, created as the instrument, was found to be a ready ally of those who then invaded the principles of the government." (*Ibid.*, Correspondence of Andrew Jackson, Vol. 5, p. 192.)

President Jackson Is Surrounded by Proponents of the Central Bank

President Jackson was surrounded almost on all fronts by those who sought to uphold the English banking system. He reformed his cabinet and prepared to battle his chief opponents – the bankers. In a letter to Hugh L. White, Jackson encouraged him to accept the post as Secretary of War. He said:

"Had I time to bring to your view the circumstances with which I am surrounded, the necessity, from actual experience, of having men around me in whom I can confide, and particularly one to whom I can freely unbosom myself, I know you would yield to my wishes.

"The great principles of the democracy which we have both at heart to see restored to the Federal Government, cannot be accomplished unless a united Cabinet will labor to this end. The great struggle against rechartering the United States Bank is to be met. The corrupting influences of the Bank on the morals of the people and upon Congress are to be met and fearlessly met.

"Many who you would not have supposed, have secretly enlisted in its ranks, and between bank men, nullifiers, * * * it is hard to get a Cabinet who will unite with me heart and hand in the great task of Democratic reform in the administration of Government. In this work if possible the Cabinet must be united, or the Executive, whilst laboring to effect it (bank reform), some one of the Cabinet may secretly be laboring with Congress to prevent it from being carried into execution." (*Ibid.*, Correspondence of Andrew Jackson, Vol. 4, p. 272.)

The Bank of the United States Is Clearly Unconstitutional

Three important letters describe the true feelings possessed by President Jackson in relation to the banking issue. In a letter to John Randolph, Jr., a foreign ambassador, Jackson said:

"You have done me no more than justice when you repelled with indignation the declaration that I had changed my views on the Bank of the United States. Nothing more foreign to the truth could have been said. * * * As at present organized, I have uniformly on all occasions held the same language in regard to that institution, that, that it has failed to answer the ends for which it was created; and besides being unconstitutional, in which point of view no measure of utility could ever procure for it my official sanction, it is on the score of the expediency dangerous to liberty, and therefore, worthy of the denunciation which it has received from the disciples of the old Republican school." (*Ibid.*, *Correspondence of Andrew Jackson*, Vol. 4, p. 387.)

Corruption at the Central Bank

In a letter to Rev. Hardy M. Cryer on April 4, 1833, Jackson said: "The wicked projects of the leaders of nullification and secession are for the present, I think, effectually, and I hope forever, put down. But the coalition between Clay and Calhoun, and combined as it is, with a few nullifiers in Virginia, and Poindexter and his coadjutors in the south and south west, portends no good, but much evil if the people could be misled and become the dupes of their heresies and wicked designs. The combination wields the United States Bank, and with its corrupting influence, they calculate to carry everything, even its (U.S. Bank) recharter by two-thirds of Congress against the veto of the executive. * * * I have no hesitation to say, if they can recharter the Bank, with its hydra of corruption they will rule the nation, and its charter will be perpetual and its corrupting influence destroy the liberty of our country.

"It is believed that in the last two years it has loaned to members of Congress and subsidized presses, at least, one-half a million dollars, the greater part of which will be lost to the bank and stockholders. If such a corruption exists 'in the green tree, what will be in the dry!' – Luke 23:31.

"But such have been the scenes of corruption in our last Congress that I loathe the corruption of human nature, and long for retirement and repose on the Hermitage. But until I can strangle the hydra of corruption, the Bank, I will not shrink from my duty, or my part." (*Ibid.*, *Correspondence of Andrew Jackson*, Vol. 5, p. 52.)

The Central Bank Is Dangerous to the Liberties of America

In a letter to U.S. Attorney General Taney on August 5, 1833, Jackson also said:

"My mind has for some time been made up, that the continued existence of that powerful and corrupting monopoly (The United States Bank) will be fatal to the liberties of the people, and that no man but yourself is strong enough to meet and destroy it, and if your administration closes without having established and carried

into operation some other plan for collection and distribution of the revenue, the Bank will be too strong to be resisted by anyone who will succeed you.

"Entertaining these opinions I am prepared to hazard much, in order to save the people of this country from the shackles which a combined monied aristocracy is seeking to fasten upon them." (*Ibid.*, *Correspondence of Andrew Jackson*, Vol. 5, p. 148.)

President Jackson's Veto Message

When the bill to recharter the third Bank of the United States was presented to him, Jackson took great pleasure in vetoing it. To him it was the culmination of a long war with those who were seeking to subjugate the nation. A brief analysis of Jackson's veto message was made by August C. Buell, a biographer of Jackson. He said:

"The veto message was one of the longest ever sent to Congress by any President. It reviewed the bank from every point of contemplation. * * * Its substance had been prepared by the President in sections and paragraphs. Its law points were studied by Attorney General Taney and Edward Livingston. Its financial theories were scrutinized by Louis McLane, himself at heart a Bank man. Questions as to its public expediency, apart from Constitutional and technical considerations, were in the phraseology of the President himself.

"As a whole, it may be described as the joint product of the minds of Jackson, Benton, Livingston, Taney, grouped into literary symmetry by William B. Lewis, Francis Blair, and Amos Kendall – than whom three cleverer writers were not to be found.

"It was a document not only for its own time and place but for all history. It not only stated the President's objections to the Bill before him, but it crystallized for all time all arguments that should be offered against lending the fiscal power and resources of the United States to the use and behoof of any chartered monopoly whatsoever.

"Its tone was moderate, its temper unruffled, its style lofty, its diction clear, dignified and forceful." (*History of Andrew Jackson*, New York: Scribner Sons, 1904, pp. 264-265.)

The Central Bank Is Unconstitutional

Jackson's veto message on "Rechartering the United States Bank" ranks as one of the great declarations made by an American president. The address, in part, is as follows:

"Washington, July 10, 1832. To the Senate

"The Bill 'To Modify and Continue' the act entitled 'An Act to incorporate the subscribers to the Bank of the United States' was presented to me on the 4th of July, instant.

"Having considered it with that solemn regard to the principles of the Constitution which the day was calculated to inspire, and come to the conclusion that it ought not to become a law, I herewith return it to the Senate, in which it originated, with my objections.

"A bank of the United States is in many respects convenient for the Government and useful to the people. Entertaining this opinion and deeply impressed with the belief that some of the powers and privileges possessed by the existing bank are unauthorized by the Constitution, subversive to the rights of the States, and dangerous to the liberties of the people, I felt it my duty at an early period of my Administration to call the attention of Congress to the practicability of organizing an institution combining all its advantages and obviating these objections. I sincerely regret that in the Act before me I can perceive none of those modifications of the bank charter which are necessary, in my opinion, to make it compatible with justice, with sound policy, or with the Constitution of our country.

The Central Bank Is a Monopoly

"The present corporate body, denominated the President, Directors, and Company of the Bank of the United States, will have existed at the time this act is intended to take effect, twenty years. It enjoys an exclusive privilege of banking under the authority of the General (Federal) Government, monopoly of its favor and support, and, as a necessary consequence, almost a monopoly of the foreign and domestic exchange.

"Every monopoly and all exclusive privileges are granted at the expense of the public, which ought to receive a fair equivalent. The many millions which this act proposes to bestow on the stockholders of the existing bank must come directly out of the earnings of the American people. * * * It is not conceivable how the present stockholders can have any claim to special favor of the Government. The present corporation has enjoyed its monopoly during the period stipulated in the original contract.

Over One-Fourth of the Stock Is Held by Foreigners

"It (the Act) seems to be predicated on the erroneous idea that the present stockholders have a prescriptive right to not only the favor but to the bounty of government. It appears that more than a fourth part of the stock is held by foreigners and the residue is held by a few hundred of our own citizens, chiefly of the richest class. For their benefit does this Act exclude the whole American people from competition in the purchase of this monopoly, and dispose of it for many millions less than it is worth.

"It has been urged as an argument in favor of rechartering the present bank that the calling in its loans will produce great embarrassment and distress. The time allowed to close its concerns is ample, and if it has been well managed its pressure will be light, and heavy only in case its management is bad. If, therefore, it shall produce distress, the fault will be its own, and it would furnish a reason against renewing a power which has been so obviously abused.

"But will there ever be a time when this reason will be less powerful? To acknowledge its force is to admit that the bank ought to be perpetual, and as a consequence the present stockholders and those inheriting their rights as successors be established a privileged order, clothed both with great political power and enjoying immense pecuniary advantages from their connection with government.

A Danger to Our Liberties and Independence

"Modifications of the existing charter proposed by this Act, are not such, in my view, as make it consistent with the rights of the States or the liberties of the people. * * * All the objectionable principles of the existing corporation, and most of its odious features, are retained without alleviation. * * * Its stock is constantly passing out of the country. * * * Is there no danger to our liberties and independence in a bank that in its nature has so little to bind it to the country? The President of the bank has told us that most of the state banks exist by its forbearance. Should its influence become concentrated, as it may, under the operation of such an act as this, in the hands of a self-elected directory whose interests are identified with those of the foreign stockholders, will there not be cause to tremble for the purity of our elections in peace, and for the independence of our country in war? Their power would be great whenever they might choose to exert it * * * If any private citizen or public functionary should interpose to curtail its powers or prevent a renewal of its privileges, it can not be doubted that he would be made to feel its influence.

"Should the stock of the bank principally pass into the hands of the subjects of a foreign country, and we should unfortunately become involved in war with that country, what would be our condition? * * * All its * * * would be in aid of the hostile fleets and armies without.

A Formidable and Dangerous Institution

"Controlling our currency, receiving our public monies and holding thousands of our citizens in dependence, it would be more formidable and dangerous than the naval and military power of the enemy.

"It is maintained by advocates of the Bank that its Constitutionality in all its features ought to be considered as settled by precedent and by the decisions of the Supreme Court. To this conclusion I can not assent. Mere precedent is a dangerous source of authority, and should not be regarded as deciding questions of

Constitutional power except where the acquiescence of the people and the States can be considered as well settled. So far as this being the case on this subject, an argument against the bank might be based on precedent.

"One Congress in 1791, decided in favor of a bank. Another Congress in 1811, decided against it. One Congress in 1816, decided against a bank. Another in 1816, decided in favor.

"Prior to the present Congress, therefore, the precedents drawn from that source were equal. If we resort to the States, the expressions of Legislative, Judicial and Executive opinions against the bank have been probably to those in its favor as 4 to 1. There is nothing in precedents, therefore, which, if its authority were admitted, ought to weigh in favor of the act before me.

Congress Is Given Power to Coin Money

"It is maintained by some, that the bank is a means of exercising the Constitutional power 'to coin money and regulate the value thereof.' Congress has established a mint to coin money and passed laws to regulate the value thereof. The money so coined with its value so regulated, and such foreign coins as Congress may adopt, are the only currency known to the Constitution.

"But if they (Congress) have the power to regulate the currency; it was conferred to be exercised by themselves, and not to be transferred to a corporation (or individuals).

"If the bank be established for that purpose with a charter unalterable without its consent, Congress have parted with its power for a term of years, during which the Constitution is a dead letter.

It is Unconstitutional for Congress to Transfer Its Powers to a Central Bank

"It is neither necessary nor proper to transfer its legislative power to such a bank, and therefore Unconstitutional.

"It is to be regretted that the rich and powerful too often bend the acts of Government to their selfish purposes. Distinctions in society will always exist under every just government. Equality of talents, of education, or of wealth can not be produced by human institutions. In the full enjoyment of the gifts of Heaven and the fruits of superior industry, economy and virtue, every man is equally entitled to protection by law; but when the laws undertake to add to those natural and just advantages, artificial distinctions, to grant titles, gratuities, or exclusive privileges, to make the rich richer and the potent more powerful, the humble members of society – the farmers, mechanics and laborers – who have neither the time nor means of securing favors to themselves, have a right to complain of the injustices of their government.

Establishment of a Central Bank Is a Departure from Just Principles

"There are no necessary evils in government. Its evils exist only in its abuses. If it could confine itself to equal protection, and, as Heaven does its rain, shower its favors alike on the high and the low, the rich and the poor, it would be an unqualified blessing. In the Act before me there seems to be a wide and unnecessary departure from these just principles.

"Nor is our Government to be maintained or our Union preserved by invasions of the rights and powers of the several States. In thus attempting to make our General (Federal) Government strong we make it weak. Its true strength consists in leaving individuals and States as much as possible to themselves – in making itself felt, not in its power, but in its beneficence not in its control but in its protection; not in binding the States more closely to the center, but leaving each to move unobstructed in its proper orbit.

"Experience should teach us wisdom. Most of the difficulties our Government now encounters, and most of the dangers which impend over our Union have sprung from an abandonment of the legitimate objects of Government by our National Legislature and the adoption of such principles as are embodied in this (Bank) Act.

Wealthy Seek to Use Government to Enrich Themselves

"Many of our rich men have not been content with equal protection and equal benefits, but have besought us to make them richer by acts of Congress. By attempting to gratify their desires we have in the results of our legislation arrayed section against section, interest against interest, and man against man, in a fearful commotion which threatens to shake the foundations of our Union. It is time to pause in our career to review our principles, and, if possible, to revive that devoted patriotism and spirit of compromise which distinguished the Sages of the Revolution and the Fathers of the Union.

Take a Stand Against the Monopolistic Central Bank

"If we cannot at once, in justice to interests invested under improvident legislation, make our Government what it ought to be, we can, at least, take a stand against all new grants of monopolies and exclusive privileges (such as rechartering the U.S. Bank, a private bank of issue) against any prostitution of our Government to the advancement of the few at the expense of the many, and in favor of compromises and gradual reform in our code of laws and system of political economy.

Rely Upon Providence to Watch Over America

"I have now done my duty to my country (in vetoing this measure). If sustained by my fellow citizens (and Congress) I shall be grateful and happy. If not, I shall find in the motives which impel me, ample grounds for contentment and peace. In the difficulties which surround us and the dangers which threaten our Institutions there is cause for neither dismay nor alarm. For relief and deliverance let us firmly rely on that kind Providence which I am sure watches with peculiar care over the destinies of our Republic, and on the intelligence and wisdom of our countrymen. Through His abundant goodness and their patriotic devotion our liberty and Union will be preserved." (James D. Richardson, editor, *Compilation of the Messages and Papers of the President*, Washington, D.C.: U.S. Government Printing Office, 1900, Vol. 2, pp. 574.)

International Bankers Use a Variety of Tools to Force Governments to Accept Their Monopolistic Policies

Needless to say when the Bank of the United States was not rechartered, the banking fraternity throughout the world was somewhat distraught. It must be remembered that bankers possess the power under the English banking system to extend and restrict credit or money. History records that these tools have been used by bankers to persuade Congress and the people to follow their policies. President Jackson's last message alludes to this unique and apparently unquestioned power of the bankers. It reads:

"The distress and alarm which pervaded and agitated the whole country when the Bank of the United States waged war upon the people in order to compel them to submit to its demands cannot be forgotten. The ruthless and unsparing temper with which whole cities and communities were oppressed, individuals impoverished and ruined, and a scene of cheerful prosperity suddenly changed into one of gloom and despondency ought to be indelibly impressed on the memory of the people of the United States.

"If such as its power in a time of peace, what would it not have been in a season of war, with an enemy at your doors? No nation but the freemen of the United States could have come out victorious from such a contest; yet, if you had not conquered, the government would have passed from the hands of the many to the hands of the few, and this organized money power, from its secret conclave, would have dictated the choice of your highest officials and compelled you to make peace or war, as best suited their own wishes.

Distress and Suffering Inflicted upon the People by Central Bankers

"The forms of your (democratic) government might for a time have remained, but its living spirit would have departed from it.

"The distress and sufferings inflicted on the people by the Bank are some of the fruits of that system of policy which is continually striving to enlarge the authority of the Federal Government beyond the limits fixed by the Constitution.

"The powers enumerated in the instrument do not confer on Congress the right to establish such a corporation as the Bank of the United States, and the evil consequences which followed may warn us of the danger of departing from the true rule of construction, and of permitting temporary circumstances or the hope of better promoting the public welfare to influence in any degree our decisions upon the extent of the authority of the General (Federal) Government.

Let Us Abide by the Constitution

"Let us abide by the Constitution as it is written, or amend it in the Constitutional mode if it is found to be defective.

"The severe lessons of experience will, I doubt not, be sufficient to prevent Congress from again chartering such a monopoly, even if the Constitution did not present an insuperable objection to it.

"But you must remember my fellow citizens, that eternal vigilance by the people is the price of liberty, and that you must pay the price if you wish to secure the blessings."

"It is from within, among yourselves – from cupidity, from corruption, from disappointed ambitions, and inordinate thirst for power – that factions will be formed and liberty endangered. It is against such designs, whatever disguise the actors assume, that you have especially to guard yourselves.

Americans Have Been Chosen by Providence to Be the Guardians of Liberty

"You have the highest human trust committed to your care. Providence has showered on this favored land blessings without number, and has chosen you as the guardians of freedom, to preserve it for the benefit of the human race.

"May He who holds in his hands the destinies of nations make you worthy of the favors He has bestowed, and enable you, with pure hearts and clean hands and sleepless vigilance, to guard and defend to the end of time the great charge He has committed to your keeping." (*Ibid.*, *The Messages and Papers of the Presidents*, Vol. 4, pp. 1523.)

Debt Eliminated During President Jackson's Second Term

It should be noted that during President Jackson's second term that the national debt was completely eliminated and the federal government compiled the only

surplus in the history of the Republic. Over \$35 million were redistributed to the individual states.

The House of Rothschild

It is also important to comment on the House of Rothschild. One history of banking notes:

"In time, the House of Rothschild became the fiscal agent of almost all the civilized nations, at Nathan's (Rothschild's) death in 1836, his firm was the most powerful financial organization on earth." ("4000 Years of Banking," *National Cash Register*, Dayton, Ohio, June 1970, p. 11.)

The House of Rothschild has been active in America for several decades. Their goal has remained the same: subjugate America and enhance the financial powers of the world by maintaining total control over the issuance of money.

Lincoln Advocates Principles of Sound Money

One of the greatest U.S. presidents ever to live was Abraham Lincoln. His devotion to the principles of the Old Republican school are well known. His devotion to the principles of sound money are less known.

After the failure of the bankers to recharter their central bank patterned after the Bank of England, they had to wait quite a few years before another attempt could be made. The Civil War proved to be a great opportunity for the bankers to persuade Congress to recharter the Bank of the United States. Jackson's veto message had sent a considerable shock wave throughout the world's financial hierarchy, but it would not equal the tremors caused by President Lincoln. As we shall see, Lincoln's monetary policies threatened the entire English banking structure throughout the world.

Lincoln Encouraged by Bankers to Borrow Money from Foreigners

Lincoln was also surrounded by prominent figures whose ties to the banking world were known, nevertheless, he attempted to persuade them to adopt sound monetary principles during the height of the Civil War to no avail. When Lincoln needed money to finance the war, his Secretary of the Treasury urged him to borrow it from the foreign bankers who charged a considerable amount of interest. This Lincoln refused to do.

A Plan to Subjugate America Spoiled by Lincoln

It appears that the real power behind the British Empire – the merchant and international bankers – were ready to once again subjugate the American States.

The bankers, particularly the Rothschild clan, persuaded Napoleon to extend his empire to Mexico. France was offered Texas and Louisiana if it would intervene against the northern states. England planned to make the northern states a part of the Empire once again. Rothschild money went to the South while the bankers set the interest rate at 28% in the north. Lincoln next made a move that caught the bankers by complete surprise. It sent shock waves of immense proportions throughout the world. Lincoln turned to the U.S. Constitution and found the answer to the nation's most severe problem – how to finance the war and save the nation.

Lincoln Had Government Issue Its Own Currency

The bankers moved quickly, but to no avail in their attempt to prevent Lincoln from issuing government money to pay for the war. On September 24, 1862, Lincoln issued a proclamation which read:

"The suspension of specie payments of the banks, soon after the commencement of your last session (of Congress) made large issues of United States Notes unavoidable. In no other way could the payment of the troops, and the satisfaction of other just demands be so economically, or so well provided for.

"The judicious legislation of Congress, securing the receivability of these notes for loans and internal duties, and making them Legal Tender for other debts, has made them an universal currency; and has satisfied the * * * long felt want of an uniform circulating medium, saving thereby to the people immense sums." (Joseph H. Barrett, editor, *Life of Abraham Lincoln with His Messages, Proclamations, Letters, Etc.*, New York: Moore, Wiltach & Baldwin Publishers, 1865, p. 423.)

Lincoln Follows the Advice of a Friend and Saves the Union

Lincoln understood the U.S. Constitution and was aware of the forces in the world which were attempting to conquer America. He implemented Article 2, Section 8, Clause 5 and issued greenbacks to finance the war. These were interest free and free of banker manipulation.

Although we give President Lincoln credit for breaking the umbilical cord between the nation and foreign banking interests, it was Dick Taylor, a good friend of the President which suggested the move. In a letter to Colonel Dick Taylor, Lincoln stated:

"I have long determined to make public the origin of the greenback and tell the world that it is Dick Taylor's creation. You have always been friendly to me, and when troublous times fell on us, and my shoulders, though broad and willing, were weak, and myself surrounded by such circumstances and such people that I knew not whom to trust, then I sad in my extremity; 'I will send for Colonel Taylor; he will know what to do.' I think it was in January, 1862, on or about the 16th, that I

did so. You came and I said to you: 'What can we do?' Said you: 'Why, issue treasury notes bearing no interest, printed on the best banking paper. Issue enough to pay off the army expenses and declare it legal tender.'

"Chase thought it a hazardous thing, but we finally accomplished it and gave the people of this Republic the greatest blessing they ever had – their own paper to pay their own debts. It is due to you, the father of the present greenback, that the people should know it, and I take great pleasure in making it known.

"How many times have I laughed at your telling me plainly that I was too lazy to be anything but a lawyer?" (Emil Ludwig's *Lincoln*, translated from the Germany by Eden and Cedar Paul, Little, Brown & Company, Boston, 1930, p. 448.)

An Honest Attempt to Establish an American Monetary System Based upon the U.S. Constitution

Thaddeus Stevens was the chairman of the Ways and Means Committee of the House of Representatives. He was in charge of the Legal Tender (greenback) Bill. Just moments before the debate was closed on the house floor he said:

"We believe that the credit of the country will be sustained by it, that under it all classes will be paid in money which they can use, and that it will confer no advantages on the capitalist over the poor laboring man. If this Bill shall pass, I shall hail it as the most auspicious measure of this Congress; if it shall fail, the result will be more deplorable than any disaster which could befall us.

"This was an honest attempt to establish an American Money system as provided in the Constitution, and issue full legal tender dollars as the currency of the people of the United States.

Banks in America Unite Against Lincoln

"The Bill was no sooner made public than an organized effort was made by the moneyed interests, represented by the Bankers of New York, Boston and Philadelphia, to kill it. * * * These bankers organized themselves into a delegation, hurried to Washington, organized their forces in a formal manner and invited 'The Finance Committee of the Senate' and the 'Committee of Ways and Means of the House' to meet in the office of the Secretary of the Treasury of the United States, January 11th, 1862.

"The meeting was held and they entered their vigorous protest against the Bill and submitted their own plans as a substitute.

"...The bankers' delegation remained in Washington several days and went into further consultation with Secretary Chase, which resulted in an agreement with

him that Congress should be urged to pass the National Bank Bill, and that the amount of the demand notes already issued by the Secretary of the Treasury (in other words Lincoln's Constitutional money) should not be increased beyond the \$50,000,000 authorized by the Act of July 1861, and also that Congress should be urged to extend the provisions of the existing loan Act so as to enable the Secretary of Treasury to exchange interest bearing treasury notes for the demand notes not bearing interest (greenbacks), and get them (Lincoln's National currency) out of the way." (Quoted in T. Cushing Daniel, *Real Money Versus False Money – Bank Credits*, Washington, D.C.: Monetary Educational Bureau, no date, p. 43.)

Bankers Stop the Non-Interest Bearing Notes Issued by Lincoln

The bankers agreement with Secretary of the Treasury, Chase, to initiate the National Bank Bill was the beginning of the end of the "Lincoln greenbacks" and government control of the money. Carl Sandburg relates the following conversation between President Lincoln and a Treasury official:

"At that time, in 1862, Lincoln had come one late afternoon into the room of the Register of the Treasury, L. E. Chittenden. As that official told it, Lincoln 'dropped wearily into a seat,' and after a short silence asked about the recent paper money put into circulation by the Government.

"'What have you to say about this Legal Tender Act? Here is a committee of great financiers from the great cities who say, by approving this Act, I have wrecked the country. They know all about it – or they are mistaken.'

"The Government, but its declaration that its greenbacks would be full payment, legal tender, for all debts, had made trouble for the bankers, bondholders, and the creditor class. Their money was becoming cheapened by the issue of \$100,000,000 of greenbacks.

"The time for argument is passed. Legal Tender is inevitable. THE GENTLEMEN YOU MENTION HAVE MADE IT A NECESSITY. The people would take our notes without the Legal Tender clause. The banks and copperheads will not. We cannot risk the country in their hands.

"'You have followed your own good judgment in signing the Act. The people will sustain you, and Secretary Chase, and Congress.'

"Lincoln went on:

"'I do not see that I am exclusively responsible. I say to these gentlemen, "Go to Secretary Chase; he is managing the finances." They persist, and have argued me almost blind. – I am worse off than St. Paul. He was in a strait between two. I am in a strait between twenty, and they are bankers and financiers.'

"You were right in signing the Act. That point has passed debates." – Chittenden. (Carl Sandburg, *Abraham Lincoln: The War Years*, New York: Harcourt, Brace & Co., Vol. 2, p. 171.)

The Powers of Congress Cannot Be Lawfully Delegated to a Private Monopoly

Gerald G. McGeer, a former member of Parliament in Canada, made an analysis of Lincoln's monetary policy in 1935. McGeer's several statements on this are reprinted below:

"* * * Lincoln was of the school of enlightened political understanding which had existed in the United States ever since Jefferson and his associates had reserved in the Constitution the right to issue currency to the National Government, a right which many believe cannot be lawfully delegated to a private monopoly.

"At the outset of Lincoln's administration he faced the fact that under private control of credit the Government was unable to finance the expense of maintaining the national life of the Republic.

"Thus, * * * in the midst of Civil War * * * Lincoln was confronted with a failure of the private money system, and a shortage of money in the nation, a situation identical with the one that confronted all nations in 1914, and almost identical with the one that Franklin D. Roosevelt met on the day of his inauguration as President, seventy years after Lincoln's death.

U.S. Notes Are Legal Tender

"Lincoln, however, did not hesitate to act. Seizing the opportunity, his forces presented a Bill to Congress making United States Notes full Legal Tender for the purpose of placing the Government in a position to create and issue the money necessary to finance the needs of the nation." (Gerald G. McGeer, *The Conquest of Poverty*, pp. 167-168.)

Lincoln's Monetary Program Was Sound and Constitutional

"Lincoln believed that the spending power of Government and the buying power of the consumers could and should be created and issued by the State free from 'interest, discounts and other charges' imposed as the profit of the private money system. Lincoln's monetary program offered the means of paying the debts and current expenses of government without profit to the bankers and without disaster to the taxpayers." (*Ibid.*, p. 171.)

"Quite naturally, the bankers opposed Lincoln's 'National currency program,' for under it he proposed to take away from the bankers the privilege of issuing an effective substitute for money." (*Ibid.*, p. 172.)

The Banker's Plan for Controlling Money

"The banker's plan of controlling money was for the government * * * to farm out its powers to issue money to the bankers. Having thus lost its power to issue money, the government would be reduced to the position of a perpetual borrower at interest from a private monopoly which secured its power to issue a substitute for money from the Government.

"The Government interest-bearing bonds (under the bankers' plan) were to take the place of gold as a basic security for private bank note currency and bank deposits. In this way government bonds were to be used as the basis of bank credit." (*Ibid.*, p. 174.)

"* * * circulars (of the bankers) contained the statement, that 'the control of labor and wages can be attained by controlling the money.' This, in turn, was to be achieved by recognizing war as the means of putting government permanently in debt." (*Ibid.*, p. 175.)

"That the purpose of this policy (the bankers' plan) was to secure an advantage to the craft of usury through maintenance of a shortage of money was also placed beyond question for the bankers' propaganda boldly stated:

"Let the Government issue the coin (a small percent of the medium) and the bankers issue the paper money of the country. To restore to circulation the Government issue of money will be to provide the people with money, and WILL THEREFORE SERIOUSLY AFFECT YOUR INDIVIDUAL PROFIT AS BANKERS AND LENDERS." (*Ibid.*, p. 176.)

A Diabolical Scheme of the High Financiers

"In this diabolical scheme of high finance war played its part. The technic of using war as a means of enthralling government in interest-bearing debt (bonds), financed by the manipulation of credits, was first developed as an interest racket by the Rothschilds during the Napoleonic Wars.

"That this evil combination of war and usury * * * formed a major part of the plan which organized international finance had under way at the time the Civil War broke out in the United States, is clearly proven by the circulars issued to American banking institutions by European bankers as part of the propaganda used in opposing Lincoln's attempt to restore to government the right to finance war and public enterprise by the issue of national currency combined with governmental control of the monetary system.

"Let there be no mistake about this. The bankers at that time in opposition to Lincoln's greenback currency, specifically outlined the policy they have since pursued, by stating:

"That the great debt that the capitalists will see to it is made of the Civil War must be used as a measure to control the volume of money. To accomplish this the bonds must be used as a banking basis.' (*Ibid.*, p. 175.)

A War Between Lincoln and the Financiers

"The issue between Lincoln and the financiers was clear cut and well defined. * * * That issue is: Shall the medium of exchange consisting of money, token currency, inconvertible bank notes and inconvertible bank credit transferable by check, be created and issued by men responsible to the government * * * or shall it be created and issued by men who are answerable to neither nation nor people, and who have no responsibility other than that of serving their own and the interests of the private money system.?"

"In short, shall government be subordinate to Money Power with the money changers ruling Democracy? Or shall Democracy rule the money changers? Lincoln knew that it was upon the determination of this great issue in favor of Democracy that the progress, prosperity and peace of humanity depended.

"In accordance with this sound conclusion, being on the side of humanity, he, therefore, proposed 'a managed currency system' that would fully establish the sovereignty of Democratic Government." (*Ibid.*, p. 172.)

The International Bankers in Europe and England Unite to Stop Lincoln

"Clearly recognizing that if Lincoln succeeded in the United States that the power of high finance would be wiped out throughout the world, for the international bankers knew that other nations would be certain to follow Lincoln's lead, the bankers of Europe and England organized against Lincoln and exhorted the bankers of the United States to support." (*Ibid.*, p. 173.)

"This program of the organized international bankers constituted a direct challenge to Lincoln, who incurred the hatred and undying enmity of this crafty and merciless bank of robbers when he undertook to establish the right of the Government of the American people to save the nation from disruption by the issue of national currency not convertible into either gold or silver.

Lincoln Saw Through the Bankers Scheme to Control the Money System of America.

"Yes, Lincoln saw through the bankers' rascality and opposed it. Notwithstanding the power of its sponsors, he challenged their attitude as a public outrage, and opposed their activities up to the very moment of his death." (*Ibid.*, p. 176.)

"The nature of Lincoln's fight with the bankers may be inferred from the debates (in the House of Representatives) on the amendments (to the Legal Tender Bill) made in the Senate. * * * In the closing debate, Thaddeus Stevens, who had Lincoln's unqualified support, after pointing out that 'the full Legal tender bill had been hailed with delight throughout the whole length and breadth of the Union by every class of people,' exposed the bankers' power over the people's representatives' when he denounced the Senate's amendments in these words:

"Their cashiers and agents (of the bankers) were soon here on the ground, and persuaded the Senate, with but little deliberation, to manage and destroy what it had cost the House months to digest, consider and pass. They fell upon the Bill in hot haste, and so disfigured and deformed it, that its very father would not know it. Instead of being a beneficent and invigorating measure it is now positively mischievous.

"It now creates money, and by its very terms, declares it a depreciated currency." (*Ibid.*, p. 169.)

Bankers Propose a Plan to Restore Their Power

As just pointed out by McGeer, the bankers were attempting to regain their position of power and control over the issuance of money. They had devised a series of amendments which were designed to crush Lincoln's monetary policies. T. Cushing Daniel quotes Thaddeus Stevens who reported the Legal Tender Bill as amended back to the House as saying:

"I hope the gentlemen of the House will read the amendments. They are very important, and in my judgment, very pernicious; but I hope the House will examine them." (*Real Money Versus False Money – Bank Credits*, pp. 46.)

The original sponsor of the Legal Tender Bill, Elbridge G. Spaulding, opened the debate in the House of Representatives on the Senate Amendments:

"Mr. Chairman: I desire especially to oppose the amendment of the Senate which requires the interest on bonds and notes to be paid in coin semi-annually, and which authorizes the Secretary of the Treasury to sell six percent bonds at the market price for coin to pay the interest.

"The passage of the measure, the Legal Tender Bill, in this House was hailed with satisfaction by the great mass of the people all over the country. It received the hearty endorsement of such bodies as the Chambers of Commerce of New York, Cincinnati, St. Louis, Chicago, Buffalo, Milwaukee and other places. I have never known any measure to receive a more hearty approval from the people.

"I am opposed to all those amendments of the Senate which discriminate in favor of the holders of bonds and notes by compelling the Government to go into

the streets every six months to sell bonds at the 'market price,' to purchase gold and silver in order to pay the interest 'in coin' to the capitalists who now hold United States stocks and Treasury Notes heretofore issued or that may hold bonds and notes hereafter to be issued; while all persons in the United States – including the Army and Navy and all who supply them with food and clothing – are compelled to receive non-legal tender Treasury Notes in payment of the demands due them from the Government.

"Why make this discrimination? Who asks to have one class of creditors placed on a better footing than another? Do the people of New England, the Middle States, or the people of the Northwest or West, or anywhere else in the rural district, ask to have such discrimination made in their favor? * * * No, sir; no such unjust preference is asked for by this class of men. * * * They ask for a national currency which shall be of equal value in all parts of the country. They want a currency that shall pass hand to hand among all the people in every state, county, city, town and village in the United States.

Men of Accumulated Wealth

"Who are they, then, that ask to have a preference given to them over other creditors of the Government? Sir, it is a very respectable class of gentlemen, but a class of men who are very sharp in all money transactions. They are not generally among the producing classes; not among those who, by their labor and skill, make the wealth of the country; but a class of men that have accumulated wealth, men who are willing to lend money to Government if you will make the security beyond question, give them a high rate of interest, and make it payable in coin.

"Sir, the Legal Tender Treasury Note Bill was intended to avoid all such financing and protect Government, and the people who pay the taxes, from all such hard bargains. It was intended as a shield in the hands of the patriotic people of the country against all forced sales of bonds and all extravagant rates of interest.

"The very discrimination proposed carries on its face notice to everybody, that although the notes are declared to be 'lawful money * * *,' yet there is something of higher value, that must be sought after at the sacrifice to the Government to pay a peculiar class of creditors to whom it owes money; a kind of absurdity and self-stultification * * * which does not appear well now, and will not look well in history.

"You will, if the Senate's amendments are adopted, depreciate by your own acts, your own bonds and notes, and effectually destroy the symmetry and harmonious workings of the whole plan." (*Ibid.*, pp. 46-47.)

Bankers Institute Their Program to Regain Control of Money In the United States

The banking interests were successful in stopping the additional or continual issuance of Lincoln's constitutional money. The bankers began a series of steps which were designed to lead to the creation and control of money in the United States. Gerald G. McGeer states:

"He (Lincoln) had defined his position on labor, and, when the opportunity came for him to declare his position upon the right of Government to issue and control the currency of the nation, he was equally outspoken.

"In 1862 the conflict between Lincoln and the bankers became a matter of public record. The bankers, encouraged by the success they had achieved in emasculating, in the Senate, the Legal Tender Bill, passed in Congress in 1861, secured the passage of an Act which provided for the issue and circulation of private banks notes of less denomination than \$5.00 in the District of Columbia.

"On June 23rd, 1862, Lincoln met this open challenge of organized and militant finance by exercising his power to veto the Bill. In the veto message which he dispatched to the Senate he not only joined issue with the money changers, but he took advantage of the occasion to lay down a guiding basis for a National currency and Credit policy that is just as sound and necessary today as it was when it was written. To the Senate he said:

Lincoln's Veto Message on Bank Currency

"This Bill seems to contemplate no end which cannot be otherwise more certainly and beneficially attained. During the existing war it is peculiarly the duty of the National Government to secure to the people a sound circulating medium. This duty has been, under existing circumstances, satisfactorily performed, in part, at least, by authorizing the issue of United States notes receivable for all government dues except 'customs,' and made a Legal Tender for all debts, public and private, except interest on public debt.

"The object of the Bill submitted to me – namely, that of providing a small (bank) note currency during the present suspension – can be fully accomplished by authorizing the issue – as part of any new emission of United States Notes made necessary by the circumstances of the country – of notes of a similar character, but of less denomination, than five dollars.

"Such an issue would answer all the beneficial purposes of the Bill, would save a considerable amount to the Treasury in interest * * * would greatly facilitate payments to soldiers and other creditors of small sums, and would furnish to the people a currency as safe as their own Government.

"Entertaining these objections to the Bill, I feel myself constrained to withhold from it my approval, and return it for the further consideration and action of Congress. – Abraham Lincoln."

Lincoln Drives the Money Changers from the Temple

"By this action Lincoln upset the money changers' benches and temporarily, at least, drove the 'Ragmen,' as he called the bankers, from the temple of the government of the American people. By this action he sealed his own personal doom. This great contest between Lincoln and 'the secret foes of the nation,' the bankers of his day, little referred to by historians, ended in the assassination of the 'great Emancipator.'" (*The Conquest of Poverty*, p. 177.)

Newspaper Editorial in England Calls for Destruction of the Lincoln Administration

As President Lincoln was issuing his constitutional greenbacks an editorial appeared in the *London Times* which said:

"If this mischievous financial policy, which has its origin in the North American Republic, shall become indurated down to a fixture, then that Government will furnish its own money without cost. It will pay off its debts and be without debt. It will have all the money necessary to carry on its commerce. It will become prosperous without precedent in the history of the world. The brains and the wealth of all countries will go to North America. That government must be destroyed or it will destroy every monarchy on the globe."

Greenbacks Must Be Eliminated

In America the bankers were busy drafting the National Bank Act of 1863. A circular from London was distributed among the banking groups in America. It read:

"Slavery is likely to be abolished by the war power. That I and my European friends are in favor of, for slavery is but the owning of labor and carries with it the care of the laborers, while the European plan, led on by England, is that capital shall control labor by controlling wages.

"The great debt that Capitalists will see to it is made out of the war must be used to control the value of money. To accomplish this government bonds must be used as banking basis. We are now waiting for the Secretary of the Treasury of the United States to make that recommendation.

"It will not do to allow greenbacks, as they are called, to circulate as money for any length of time as we cannot control that. But we can control the bonds and through them the banking issues."

Letters from the Rothschilds

While the National Bank Act was being debated an interesting set of letters crossed the Atlantic. They are directly related to the goals of the banking monopoly. They are reprinted as follows:

ROTHSCHILD BROTHERS, BANKERS

London, June 25, 1863

Messr. Ikelheimer, Morton and Vandergould

N. 3, Wall St.

New York, U.S.A.

Dear Sirs:

A Mr. John Sherman has written us from a town in Ohio, U.S.A., as to the profit that may be made in the National Banking business, under a recent act of your Congress; a copy of this act accompanies this letter.

Apparently this act has been drawn upon the plan formulated here by the British Bankers Association, and by that Association recommended to our American friends, as one that, if enacted into law, would prove highly profitable to the banking fraternity throughout the world.

Mr. Sherman declares that there has never been such an opportunity for capitalists to accumulate money as that presented by this act. It gives the National Bank almost complete control of the National finance. 'The few who understand the system,' he says, 'will either be so interested in its profits, or so dependent on its favors that there will be no opposition from that class, while, on the other hand, the great body of people, mentally incapable of comprehending the tremendous advantages that Capital derives from the system, will bear its burden without complaint, and perhaps without even suspecting that the system is inimical to their interests...'

Your respectful servants,

ROTHSCHILD BROTHERS."

"New York City

July 6, 1863

Messrs. Rothschild Brothers

London, England.

Dear Sirs:

We beg to acknowledge receipt of your letter of June 25, in which you refer to a communication received of Honorable John Sherman of Ohio, with reference to the advantages and profits of an American investment under the provisions of the National Banking Act.

Mr. Sherman possesses in a marked degree the distinguishing characteristics of a successful financier. His temperament is such that whatever his feeling may be they never cause him to lose sight of the main chance.

He is young, shrewd and ambitious. He has fixed his eyes upon the Presidency of the United States and is already a member of Congress (he has financial ambitions, too). He rightfully thinks that he has everything to gain by being friendly with men and institutions having large financial resources, and which at times are not too particular in their methods, either of obtaining government aid, or protecting themselves against unfriendly legislation.

As to the organization of the National Bank here and the nature and profits of such an investment we beg leave to refer to our printed circulars enclosed herein, viz:

'Any number of persons not less than five may organize a National Banking Corporation.

'Except in cities having 6000 inhabitants or less, a National Bank cannot have less than \$1,000,000 capital.

'They are private corporations organized for private gain, and select their own officers and employees.

'They are not subject to control of State Laws, except as Congress may from time to time provide.

'They may receive deposits and loan the same for their own benefit. they can buy and sell bonds and discount paper and do a general banking business.

'To start a National Bank on the scale of \$1,000,000 will require purchase of that amount (par value) of U.S. Government Bonds.

'U.S. Government Bonds can now be purchased at 50% discount, so that a bank of \$1,000,000 capital can be started at this time for only \$500,000.

'These bonds must be deposited in the U.S. Treasury at Washington as security for the National Bank currency, that will be furnished by the government to the bank.

'The United States Government will pay 6% interest on the bonds in gold, the interest being paid semi-annually. It will be seen that at the present price of bonds the interest paid by the government itself is 12% in gold on all money invested.

'The U.S. Government on having the bonds aforesaid deposited with the Treasurer, on the strength of such security will furnish National currency to the bank depositing the bonds, at an annual interest of only one per cent per annum.

'The currency is printed by the U.S. Government in a form so like greenbacks, that the people do not detect the difference. Although the currency is but a promise of the bank to pay.

'The demand for money is so great that this money can be readily loaned to the people across the counter of the bank at a discount at the rate of 10% at thirty to sixty days time, making it about 12% interest on the currency.

'The interest on the bonds, plus the interest on the currency which the bonds, plus incidentals of the business, ought to make the gross earnings of the bank amount to from 28% to 33 1/3%.

'National Banks are privileged to increase and contract their currency at will, and of course, can grant or withhold loans as they may see fit. As the banks have a National organization and can easily act together in withholding loans or extending them, it follows that they can by united action in refusing to make loans cause a stringency in the money market, and in a single week or even a single day cause a decline in all products of the country

'National Banks pay no taxes on their bonds, nor on their capital, nor on their deposits.'

Requesting that you will regard this as strictly confidential....

Most respectfully yours,

IKELHEIMER, MORTON AND VANDERGOULD"

The Evils of Money and Credit

The above letter demonstrates how banks extend and then restrict money for their selfish aims. Daniel Webster, a friend of Andrew Jackson, once summarized the evils of money and credit as follows:

"There never has been devised by any man a plan more specious by which labor could be robbed of the fruits of toil than the banking system. The people not only take bank paper as money, paying interest on it, but when banks suspend, the people lose the discount while the bankers gain it.

"The people wonder why financial panics occur so frequently. I can tell them why. It is to the interests of the bankers and brokers that they should occur. It is one of the specious methods by which these despotic and utterly useless knaves rob the producing, manufacturing and mercantile classes of their honest earnings. It is one of the chief plans by which this infamous ring is riveting the chains of slavery upon the limbs of labor. It is one of the chief means adopted to build up a money aristocracy that shall live in idle luxury and ape the pretentious airs of European nobility." (Gerald G. McGeer's, *Conquest of Poverty*, p. 149.)

Lincoln Had a Profound Love for the U.S. Constitution

Gerald G. McGeer's comments on Lincoln and his monetary policies are tremendously enlightening. Let us look more closely at Lincoln through the eyes of McGeer:

"To Lincoln, the Constitution was not a mere declaration of abstract principles designed to point the way to universal liberty. It was to him, a declaration of war on every form of tyrannical oppression whether it came from an abuse of military, political or monopolistic power. He recognized in Money Power, the most dangerous and most evil of all monopolies." (*Ibid.*, p. 165.)

Lincoln Sought to Establish a Sound National Currency System

"Lincoln's biographers have failed * * * to recognize that he was and still remains the greatest, most effective and practical of all monetary reformers. * * * His part in the struggle to emancipate the Negro from slavery and to prevent the destruction of his nation by secession have been allowed to overshadow his greater work which characterized his attempt to establish a sane and sound national currency system." (*Ibid.*, p. 144.)

"We shall see as we study Lincoln, the Economist, that he had an infinitely better monetary background than any President since his time. * * * Lincoln did not fall into the error of so many reformers who believe that the road to the conquest of poverty may be found through re-distribution of existing wealth. He recognized the need for the creation and distribution of more wealth. He saw that government, by creating money and putting it into circulation, would help both the creation and distribution of wealth. He was the last political leader in the United States to have held that conclusion. After his assassination, the oligarchy of Money Power took control, and the power of government to create money became the privilege of private profit-seeking monopolists.

It was there that the American nation took the wrong road, following the policy which had been established in Great Britain in 1844. It was the road that led to war, boom and depression crises, and the universal collapse of the banking and economic structures in 1929." (*Ibid.*, p. 142.)

America is Locked into a War with the Money Power

"With superb indifference to the risks involved, Lincoln fearlessly sought to set up a National Currency * * * he clashed with the international bankers of his day who were endeavoring to extend the Bank of England gold standard private-money system, in the hope that, under the sovereignty of usury, Government of Money Power, controlled by bankers and financiers, would overrule Democracy. It has succeeded. Democracy is now faced with the life and death struggle with Money Power which Lincoln anticipated." (*Ibid.*, p. 166.)

"The universal existence of destitution in the midst of abundance (as shown and experienced during the economic collapse in the 1930's when there was wholesale destruction of food and curtailment of production, and millions suffering from money famine because the government failed to keep circulation of money up to the level of our great production and productive ability) now compels all thinking men and women to agree that once the private banker is accepted as the financial advisor of the government, work is futile, hope is useless, and faith in God is endangered. That is why Christ drove the money changers from the Temple of God." (*Ibid.*, p. 207.)

America Placed into Slavery by the International Bankers

"The money power has established a more vicious form of universal slavery over the American people than ever was established over the American Negro." (*Ibid.*, p. 208.)

"Now that we know our so-called sound money system is based on fallacies that are obviously patent to anyone who will examine them, it is not surprising to find that there were men in the past who openly opposed its coming into being. It would be a matter of surprise if this were not so, for while there are many foolish people in the world in every age, there never was a time when the world was exclusively populated by self-seekers or idiots." (*Ibid.*, p. 167.)

"They (the bankers) found in Lincoln * * * a leader whom they could not buy, bluff nor confuse.

"By resorting to the issue of 'greenbacks' currency (legal currency, so-called by the Supreme Court of the United States) Lincoln launched a 'National Currency Policy' which provided that the financing of Government and progress, with the issue of 'honest money dollars' by Government would take the place of the policy

of borrowing 'dishonest credit dollars' issued by the private money system." (*Ibid.*, p. 171.)

Lincoln Proposed a National Currency Unencumbered to the Bankers

"Instead of borrowing from the private money system, Lincoln proposed (and legislation was passed) to use national currency for all government expenses (including war) and pay off outstanding bonds with the same medium. Instead of Government borrowing a fiction money from the bankers, Lincoln proposed to compel the bankers to borrow real money from the Government." (*Ibid.*, p. 172.)

"Unfortunately for humanity, in the name of sound money, the conspiracy to monopolize the issue of bank currency, as a substitute for National Currency, promoted by international bankers who did not and who did not hesitate to combine the baneful forces of war and usury to produce power and profit, through temporarily checked by Lincoln, has prevailed." (*Ibid.*, p. 170.)

"(Lincoln) was unable to tolerate, much less accept, the bankers' idea that labor should be exploited, and liberty invaded by men primarily interested in the accumulation of money wealth." (*Ibid.*, p. 174.)

Lincoln Was Convinced That the Government Could Issue Its Own Currency

"* * * Lincoln was convinced that the Government could create and issue its own currency needs. Possessing the unerring judgment of superior wisdom, Lincoln was a master in statecraft, who met and solved the fundamental problems of a sound monetary system.

"In chartering the monetary course along which our civilization must build upon the foundations of sane currency and credit management, Lincoln mapped out a monetary policy that must be adopted and put into effect before the world can enjoy the prosperity and abundance that science has made possible.

Lincoln Sought to Destroy the Money Power of the World

"He (Lincoln) was actually moving to destroy the sovereignty of Money Power (over the world)." (*Ibid.*, p. 185.)

"* * * if Lincoln had been allowed to live through his second Presidential term, no doubt he would have established a monetary system under which the existing tragedy of bankruptcy and destitution in the midst of unlimited opportunity would have been avoided." (*Ibid.*, p. 206.)

"Lincoln was, in fact, fighting the very powers who were behind the (first) Bank of the United States (Hamilton's), the Bank of England, the demonetization of silver, the gold standard, and who, later on, established in the United States the

Federal Reserve Banking System and, following the (first) World War, the Bank of International Settlement." (*Ibid.*, p. 207.)

Lincoln Foresaw a Terrible War Between America and the International Bankers

At the close of the Civil War, President Lincoln wrote to Mr. Elkins of Illinois. In this letter he said:

"Yes, we may congratulate ourselves that this cruel war is near the close, but I see in the future a crisis approaching that unnerves me and causes me to tremble for the safety of my country. As a result of the war corporations have been enthroned, and an era of corruption in high places will follow and the money power of the country will endeavor to prolong its reign by working on the prejudices of the people until wealth is aggregated in a few hands and the Republic is destroyed. I feel at this moment more anxiety for the safety of my country than eve before, even in the midst of war." (Quoted in *Real Money Versus False Money – Bank Credits*, T. C. Daniels.)

The National Bank Act

Let us now return to the National Bank Act which has been designed by Secretary of the Treasury Chase and John Sherman. Carl Sandburg, Lincoln's famous biographer, tells us:

"The National Bank Act * * * was presented as a device to get money to run the war and a method to achieve stability in currency and finance through cooperation with the bankers, bond-holders and business interests having cash and resources.

"Five or more persons, under the National Bank Act, could associate and form a bank having capital of \$50,000 or more. On depositing in the United States Treasury interest bearing bonds to the amount of one-third of the paid-in capital of the bank, the Government would engrave (Notice 'engrave,' no issue) money for them, National Bank certificates, to the amount of 90% of the par value of the bonds deposited.

"The bank would use these new certificates for carrying on a regular banking business, receiving full profit as though they were the bank's own notes. Also the banks would receive, from teh government interest payments in gold on the bonds deposited in the Treasury.

"Thus the double profit of bankers' interest on government guaranteed and supervised money issues, and the gold-paid interest on the bonds, was the inducement by which Chase, with Lincoln's complete endorsement, proposed to rally cash resources to the war for the Union.

"Thereby bankers and bond-holders were given such attractions of * * * investments and assured profits in the National Bank system that it was understood they were satisfied.

An Insidious Centralization of Power in the Central Bank

"Thaddeus Stevens saying the act favored 'the money lenders who were clamorous lest the debtor should more easily pay his debt.' He demurred that the propertied and creditor groups of the country would, through finance, unduly control the government.

"A Republican (the Jeffersonian type of Republicanism) element, holding the view of Thaddeus Stevens that it was a money lenders' measure, unjust to the debtor class, had little to say by way of criticism, waited to see if it would bring in the war funds promised * * *.

"From the opposition Democrats, few in number and influence (because of their general southern collaboration or, at least, sympathy) an outcry arose that the new National Banking system would create a more insidious centralization of money power than the old bank of the United States which Andrew Jackson had destroyed." (Carl Sandburg, *Abraham Lincoln: The War Years*, Vol. 2, p. 192.)

Congress Passes Bank Bill in Haste

The National Bank Act was before the Senate only four days and the House for only two days. As it so happens with important legislation, Congress was not really informed as to its true designs. T. Cushing Daniels informs us that:

"I would call especial attention to the fact that John Sherman was in charge of the bill and made a favorable report upon the same from the Finance Committee of the Senate on February 2, 1863. It was taken up in the Senate on February 9th, and passed on February 12th, by a vote of 22 to 21. It was then sent to the house on the 13th of February, and never referred to the Committee on Ways and Means, which should have been its regular order; was taken up on the 19th and passed the House on the 20th of the same month by a vote of 78 to 64. It was approved by the President and became a law February 25th, 1863." (*Real Money Versus False Money – Bank Credits*, p. 61.)

The Power of International Bankers in 1863

The National Bank Act of 1863 was passed just one year after the banker's monetary reform bill had taken the thrust out of Lincoln's attempt to finance the war with constitutional money called "greenbacks." It demonstrates the power which the international bankers in London, New York, etc., had developed over the Republic during the height of the Civil War.

Money Power in America Captures Monetary System

Concerning the passage of the National Bank Act, T. Cushing Daniels stated:

"Here begins one of the darkest chapters in American history. It will be found that every step taken by Congress from this on, in matters pertaining to the finances of the nation, has been dictated by the money power. Foreign capitalists, such as the Rothschilds, became deeply interested in the scheme of robbery inaugurated by the passage of this Act, and through their agents, such as August Belmont, banker and * * * chairman of the Democratic National Committee, have aided the money power here materially in controlling the policy of both the great political parties.

"The amount stolen from the people during the Civil War by the financial policy then adopted, and which now encumbers the nation in the shape of a bonded debt * * * is estimated by such writers upon the subject of finance as J. S. Gibbons – contributor to Johnson's Universal Cyclopedia – at over one thousand million dollars, to say nothing of the thousands of millions of which the people have been robbed indirectly, by means of the pernicious monetary system then foisted upon the country.

"This Bill changed the whole currency system of this country and transferred the sovereign right of the Government 'to issue money' to Banking Corporations organized for private gain. Thus, we see the vicious principle of the two so-called United States Banks perpetuated." (*Real Money Versus False Money – Bank Credits*, p. 45.)

Secretary of Treasury Acknowledges Error in Passing the National Banking Act

Salmon P. Chase, Secretary of Treasury under President Lincoln later acknowledged the grievous error in passing the National Banking Act. He stated that: "My agency in promoting the passage of the National Banking Act was the greatest financial mistake of my life. It has built up a monopoly which effects every interest in the country. It should be repealed, but before that can be accomplished the people will be arrayed on one side and the banks on the other, in a contest such as we have never seen before in this country."

A New Form of Slavery is Instituted by the National Banking Act

In 1872 Horace Greeley pointed out the long term effects of the National Banking Act when he said, "We have stricken the shackles from four million human beings {black slaves} and brought all laborers to a common level, not so much by the elevation of the former slaves as by practically reducing the whole working population, white and black, to a condition of serfdom. While boasting of our noble deeds, we are careful to conceal the ugly fact that by our iniquitous

money system we have nationalized a system of oppression which, though more refined, is not less cruel than the old system of chattel slavery."

National Bankers Association Opposes Lincoln's Plan

T. Cushing Daniels demonstrated the powerful lobbying force of the bankers by reprinting an interesting circular issued by the National Bankers' Association:

"The (following) circular was signed by the official representative of the National Bankers' Association, James Buell. The original copy of the circular was obtained by the Hon. Isaac Sharp, acting governor of Kansas (who had been, when young, a favorite law student of Thaddeus Stevens, hence his interest in the question) from Mr. J. W. Simcock, the cashier of the First National Bank of Council Grove, Kansas.

"Dear Sir:

"It is advisable to do all in your power to sustain such daily and weekly newspapers, especially the agricultural and religious press, as will oppose the issuing of greenback paper money (by government), and that you also withhold patronage or favors (no doubt lending money) from all who will not oppose the Government-issue of money.

"Let the Government issue the coin, and the banks issue the paper money of the country (about 95% of it); for then we can better protect each other.

"To repeal the law (the National Bank Act) creating National Banks, or to restore to circulation the Government-issue of money, will be to provide the people with money, and will, therefore, seriously affect your individual profit as bankers and lenders. See your member of Congress at once, and engage him to support our interests that WE MAY CONTROL LEGISLATION."

""(Signed)

""James Buell, Official Representative of the National

Bankers' Association." (*Real Money Versus False Money*, p. 53.)

Lincoln's Monetary Policy

The international bankers and bankers in the U.S. were successful in destroying Lincoln's sound and honest money system. Not only was the system destroyed, but one of the greatest monetary reformers of all time was assassinated. Gerald G. McGeer summarized Lincoln's monetary policy as follows:

"Money is the creature of the law and the creation of the original issue of money should be maintained as an exclusive monopoly of the National Government.

"Money possesses no value to the State other than given to it be circulation.

"Capital has its proper place and is entitled to every protection. The wages of men should be recognized in the structure of and in the social order as more important than the wages of money.

"No duty is more imperative on the Government than the duty it owes the people to furnish them with a sound and uniform currency, and of regulating the circulation of the medium of exchange so that labor will be protected from a vicious currency, and commerce will be facilitated by cheap and safe exchanges.

"The available supply of gold and silver being wholly inadequate to permit the issuance of coins of intrinsic value or paper currency convertible into coin in the volume required to serve the needs of the people, some other basis for the issue of currency must be developed, and some means other than that of convertibility into coin must be developed to prevent undue fluctuations in the value of paper currency or any other substitute for money of intrinsic value that may come into use.

Government Has the Power to Regulate Currency

"The monetary needs of increasing numbers of people advancing toward higher standards of living can and should be met by the Government. Such needs can be served by the issue of national currency and credit through the operation of a national banking system. The circulation of a medium of exchange issued and backed by the Government can be properly regulated and redundancy of issue avoided by withdrawing from circulation such amounts as may be necessary by taxation, redeposit, and otherwise. Government has the power to regulate the currency and credit of the Nation.

"Government should stand behind its currency and credit and the bank deposits of the Nation. No individual should suffer a loss of money through depreciated or inflated currency or bank bankruptcy.

Government Should Issue and Circulate All Currency

"Government possessing the power to create and issue currency and credit as money and enjoying the right to withdraw both currency and credit from circulation by taxation and otherwise, need not and should not borrow capital at interest as the means of financing governmental work and public enterprise. The Government should create, issue and circulate all the currency and credit needed to satisfy the spending power of the Government and the buying power of consumers.

The privilege of creating and issuing money is not only the supreme prerogative of Government, but it is the Government's greatest creative opportunity.

"By the adoption of these principles, and the long-felt want for a uniform medium will be satisfied. The taxpayers will be saved immense sums in interest, discounts, and exchanges. The financing of all public enterprise, the maintenance of stable government and ordered progress, and the conduct of the Treasury will become matters of practical administration. The people can and will be furnished with a currency as safe as their own Government. Money will cease to be master and become the servant of humanity. Democracy will rise superior to the money power." (*Ibid.*, Quoted in Senate Document No. 23.)

Bankers' Notes Replace Lincoln's U.S. Treasury Notes

After Lincoln's assassination the supporters of constitutional money and private bank note money raged in Congress. Eventually the issue was carried to the Supreme Court and the Legal Tender (greenback) Notes were declared good for debts, however, the banking fraternity were busy seeing to it that their notes, based upon debt and interest, replaced Lincoln's U.S. Treasury Notes.

The Demonetization of Silver in America

The next great move by the financial and banking interests of Europe to gain greater control over America occurred in relation to the demonetization of silver. In 1816, the merchant bankers in England, especially the Rothschilds, were successful in having silver demonetized as a base upon which money could be tied. The gold standard was to reign supreme. The international bankers decided to demonetize silver in the U.S. in 1872. They knew that they would be unsuccessful in controlling the money system in America until silver was removed as a backing.

The Babylonian Monetary System

It appears that the Rothschilds and other merchant bankers were aware of ancient tactics of financial control. Howard B. Rand, an attorney and historian, in discussing ancient Israel said:

"While sound money was used and accepted as the basis of the system of currency (with silver and gold functioning as units of value in local and world trade), Nebuchadnezzar, King of Babylon, sought to change the monetary system of the world when he gathered the financial representatives of all nations at Babylon in the first great economic conference of which we have any record. There he instituted gold as the standard of value, demonetized silver, and pronounced the death sentence for anyone who would refuse to abide by his ruling (Daniel 3:1-6.) He had succeeded in cornering the world's gold supply through world conquest and then he proposed to retain world control by instituting gold, not only as the standard, but to be the only metal to serve as money. Thus, he who

could control gold would control through gold world economics ,the price of goods and the market value of property and land. This Babylonian system, instituted by Nebuchadnezzar, has continued unto this day.

Economic Evil Brought Upon the World

"Having demonetized silver and made gold the only real money, or coin of the realm, there came into being a momentary system which could be manipulated. Silver, which had served naturally to act as a balance for gold, had been removed from this function. Gold and silver without government restraint react like coal and oil or other competing commodities; they stabilize each other, but in the case of gold and silver, stabilization was all the more important because they measured other values. The control of gold gave control over prices, and control over prices gave power over the possessions of others. This system has brought economic evil upon the earth and to all countries and peoples.

A Rigid Inflexible Monetary System

"By thus setting up gold alone as money there was instituted a rigid, inflexible monetary system and so, in accord with the law of supply and demand, instead of an increase in money or monetary wealth with the increase in goods and instead of a decrease in money or monetary wealth with the decrease in goods, prices fluctuated because of a rigid gold standard, regardless of the actual value of goods. This price fluctuation is the result of the failure of money, not currency, to expand in supply with the increase in goods or demand for money and to diminish with a decrease in goods, services and possessions. Those in control of gold were also able, because of this fact, to manipulate the price level and bring on periods of depression. Thus they continually dominate the purchasing power of money, the price level, regardless of the actual value of the thing purchased." (*Digest of the Divine Law*, Merrimas, MA: Destiny Publishers, 1943, pp. 203-204.)

The U.S. Needs to Increase Coinage of Silver

T. Cushing Daniels records the efforts of the bankers and certain Congressmen to deceive Congress and the people:

"On the of January, 1868, John Sherman (Chairman of the Finance Committee of the Senate) introduced in the Senate – 'A Bill in Relation to the coinage of Gold and Silver,' which Bill was referred to his Committee on Finance; he called this Bill up in the Senate on the 9th of June, 1868, and strongly urged its passage, using, as his main argument, the reports of Samuel Ruggles, of the proceedings of the Paris Conference. He (Ruggles) was a member of the New York Chamber of Commerce, and delegate from the United States to the Paris Conference, on which he reported:

"Fortunately, there was on the Senate Finance Committee an honest man of ability who knew something about the money question and exposed the scheme. Senator E. E. Morgan, of New York, submitted a minority report in which he opposed any international regulation of money as something that would fetter the United States, and said:

"that it would be well for the government to increase rather than discontinue the coinage of silver, and that it should be poured in the current commerce in full volume.'

"He then said;

"The (Civil) War gave us self-assertion and character and removed many impediments to progress. Its expensive lesson will be measurably lost if it fails to impress upon us the fact that we have a distinctive American policy to work out – one sufficiently free from the TRADITIONS OF EUROPE, to be suited to our peculiar situation and the genius of our enterprising countrymen.'

"...Senator Morgan's opposition killed this Bill to demonetize silver. The reading of Mr. Morgan's (minority) Report settled its fate * * * and put such a prompt quietus on this Bill that its villainous motive was not discovered by leading men in Congress.

John Sherman Uses Stealth and Diplomacy to Advance the Banker's Plans

"Those back of it realized at once that they could not afford to have it discussed in the open – John Sherman used that stealth and diplomacy which characterized his whole life in the United States Senate, and succeeded in doing that, by stealth and chicanery, which he and his backers knew was impossible of accomplishment by fair and honest means.

"They knew it was a matter of the first importance that their personality and interest in the Bill should be concealed from the public. In order to do this they had a long and technical Bill framed by Boutwell through John Jay Knox in 1870 at a time when the subject was not before the people, and little or no interest was taken in it as it was thought to be a scientific Mint Bill drawn up by specialists in the United States Mint and Treasury.

"The Bill was entitled 'An Act reviving and amending the laws relative to the Mints, assay offices and coinage of the United States,' and was always represented to Congress as a measure for the sole convenience of the specialists in the Mint and Treasury." (T. Cushing Daniels, pp. 56-57.)

An Agent of the Merchant Bankers Attempts to Persuade Congress to Demonetize Silver

As the bill was being prepared, Ernest Seyd traveled to the U.S. from London. He was to assist in the writing and passage of the congressional bill which demonetized silver. The *Congressional Record* of April, 1872, states that:

"Ernest Seyd, of London, a distinguished writer and bullionist, who is now here, has given great attention to the subject of mint and coinage. After having examined the first draft of the Bill, he made sensible suggestions which the Committee (Senate Committee on Banking and Currency) adopted and embodied in the Bill." (*Congressional Record*, p. 2032.)

The Bankers' Interest in Demonetizing Silver

What the *Congressional Record* fails to note is that Ernest Seyd was an agent of the merchant bankers in England. An affidavit before the Supreme Court in 1892 tells an interesting story about the bankers' interest and plans in demonetizing silver in the U.S. It states:

"State of Colorado,

ss.

"County of Arapahoe.

"Frederick A. Luckenback, being first duly sworn on oath, deposes and says: I am 62 years of age. I was born in Bucks County, Pennsylvania. I removed to the City of Philadelphia in the year 1846, and continued to reside there until 1866, when I removed to New York City. * * * I have been a member of the Produce Exchange and am well acquainted with many members of that body.

"In the year 1865, I visited London, England, for the purpose of placing there Pennsylvania oil properties in which I was interested. I took with me letters of introduction to many gentlemen in London – among them, one from Robert M. Foust, ex-Treasurer of Philadelphia, to Mr. Ernest Seyd. I became well acquainted with Mr. Seyd. * * * I visited London thereafter every year and at each visit renewed my acquaintance with Mr. Seyd and upon many occasions became his guest – joining his family at dinner or other meals.

"In February, 1874, while on one of these visits and while his guest for dinner, I, among other things, alluded to rumors afloat of Parliamentary corruption and expressed my astonishment that such corruption should exist. In reply to this, he told me he could relate facts about the corruption of the American Congress that would place it far ahead of the English Parliament in that line.'

The Financial Advisor to Bank of England Bribes Members of Congress

"If you will pledge me your honor as a gentleman not to divulge what I am about to tell while I live, I will convince you. * * * I gave him my promise and then he continued:

"I went to America in the winter of 1872-3 authorized to secure, if I could, the passage of the Bill demonetizing silver as it was to the interest of those I represented – the Governors of the Bank of England – to have it done.

"I took with me 100,000 pounds sterling, with the instructions that if that was not sufficient to accomplish the object, to draw another 100,000 pounds or as much more as was necessary.

"He told me German bankers were also interested in having it accomplished. He said he was the financial adviser for the bank. He said: I saw the Committee of the House and Senate and paid the money and stayed in America until I knew the measure was safe.

"He said: Your people will not now comprehend the far-reaching extent of that measure – but they will in after years.

"Whatever you may think of corruption in the English Parliament, I assure you I would not have dared to make such an attempt here as I did your country.

"I expressed my shame to him for my countrymen in our Legislative Bodies.

(Signed) Frederick A. Luckenback.

"Subscribed and sworn to before me at Denver, this 9th day of May, 1892.

(Signed) James A. Miller,

Clerk, Supreme Court,

State of Colorado.'

(Seal)

(Real Money Versus False Money-Bank Credits, pp. 53-54.)

Members of Congress Deceived About the True Nature of the Silver Bill

T. Cushing Daniel tells us: "It should be borne in mind that at this time the United States needed all the money that it could possibly get through the operations of the Mint to carry on the tremendous task of developing the resources of the country and paying off its bonded indebtedness that had been forced upon

the people by the money power. * * * Yet the above methods were resorted to by the money powers to prevent the United States from adding to the money supply, * * * contracting the currency and at the same time making the hundreds of millions of United States bonds they held, payable in gold.

"This was done without the knowledge of the voters or taxpayers of the country, who had to meet these obligations, and suffer the loss and fearful consequences of this treasonable act.

"The record will show that the leading men in Congress of the United States were absolutely ignorant of this infamous conspiracy. I give the testimony of the representatives of the people in Congress, including the President of the United States at the time as to the passage of this bill." (*Ibid.*, p. 57.)

"President U.S. Grant stated:

"I did not know that the Act of 1873 demonetized silver. I was deceived in the matter.' (*Ibid.*, p. 58.)

"Senator Morgan [of New York], December 12th, 1877:

"Did the people demonetize silver? Never! It cannot even be fairly said that Congress did it. It was done in a corner darkly. It was done at the instigation of the bondholders and other money kings, who now, with upturned eyes, deplore the wickedness we exhibit in asking the question, even, who did this great wrong against the toiling millions of our people?"

"Judge Kelly, in the House, May 10th, 1879:

"Never having heard until long after its enactment into law of the substitution in the Senate of the section which dropped the Standard dollar, I profess to know nothing of its history; but I am prepared to say that in all the legislation of this country there is no mystery like the demonetization of the standard dollar of the United States.'

"Senator Voorhees, January 15th 1878:

"No man has ever dared to whisper of a contemplated assault upon it [the Standard American silver dollar], and when the 12th day of February, 1878, approached, the day of doom to the American (silver dollar, the dollar of our fathers), how silent was the work of the enemy! Not a sound, not a word, not a note of warning to the American people that their favorite coin was about to be destroyed; that the greatest financial revolution of modern times was in contemplation, and about to be accomplished against their dearest rights!"

"Never since the foundation of the government has a law of such vital and tremendous import, or indeed of any importance at all, crawled into our statute books so furtively or noiselessly as this. Its enactment there was so completely unknown to the people, and indeed to four-fifths of Congress itself, as the presence of a burglar in a house at midnight to its sleeping inmates.

"This was rendered possible partly because the clandestine movement was so utterly unexpected and partly from the nature of the Bill in which it occurred. The silver dollar of American history was demonetized in an Act entitled, "An Act revising and amending the laws relative to the mints, assay offices and coinage of the United States." (*Ibid.*, p. 58.)

"Senator Howe, February 5th, 1878:

"The Act of 1873, I charge it with guilt compared with which robbery of \$200,000,000 is venial.'

"Senator Beck, January 10th, 1878:

"It (the Bill demonetizing silver) never was understood by either House of Congress. I say that will full knowledge of facts – no newspaper reporter – and they are the most vigilant of men I ever saw in obtaining information – discovered that it had been done.'

"Senator Beck again:

"I know that the bondholders and the monopolists of this country are seeking to destroy all the industries of this people, in their greed to enhance the value of their gold. I know that the Act of 1873 did more than all else to accomplish the result, and the demonetization act of The Revised Statutes was an illegal and Unconstitutional consummation of the fraud.'

Bankers Achieve Complete Control of Currency

"It should be remembered, * * * that the money power back of the demonetization of silver had previously succeeded in stopping the Government from issuing its full legal tender money (Greenbacks), and had then established National Banks (private) of issue in the United States – therefore, the destruction of the legal tender silver money of the Government left the National (private) Banks completely in control of the currency, based upon the fraudulent foundation of gold which these International Bankers could manipulate and control." (*Ibid.*, p. 59.)

Bankers Move to Retire All Silver Certificates and U.S. Treasury Notes

After silver was demonetized, the bankers next moved to retire all silver certificates and U.S. Treasury Notes. On March 12, 1893, the American Bankers Association issued a "Panic Circular." It stated:

"The interests of national bankers require immediate financial legislation by Congress. (1) Silver, (2) silver certificates and (3) Treasury notes must be retired, and the National Bank Notes, upon a gold basis, made the only money.

"This requires the authorization of \$500,000,000 to \$1,000,000,000 of new bonds and a basis of circulation. You will at once retire one-third of your circulation and call in one-half of your loans.

"Be careful to make a money stringency felt among your patrons, especially among business men. Advocate an extra Session of Congress for the repeal of the purchase clause of the Sherman law; and act with other banks in your city in securing a large petition to Congress for its unconditional repeal, as per accompanying form. Use personal influence with Congressmen; and particularly, let your wishes be known to your Senators. The future life of National Banks as fixed and safe investments depends upon immediate action, as there is an increasing sentiment in favor of Governmental Legal Tender Notes and Silver coinage." (Quoted in *Real Money Versus False Money – Bank Credits*, p. 71.)

Centralization of Economic Power in America

As we travel through history it is obvious that centralization of economic power and control of money has been precipitated by the bankers. The average person, although usually unaware of the daily workings of Congress and the financial community is vividly aware when money is tightened by the banks. Millions of Americans are injured by such actions. Business failures and property foreclosures are in the hundreds of thousands. The bankers are the only ones who seem to benefit from control of money.

The Election of 1892 Is Controlled by American Bankers' Association

T. Cushing Daniels states that the American Bankers' Association controlled the election of the President in 1892:

"In order to show that the people were deceived in the Presidential Campaign of 1892 and that the money power was the controlling force back of this campaign, and that their purpose was to stop the Government from adding to the currency system by the coining, or use of any more silver as currency, and by doing this increase the hold of the money power and banking interests over the money system of the United States, * * * the people were kept excited and their attention centered

on the Tariff, the Nominal Issue, while the real issue was kept from them. They talked tariff while the issue was money.

"A valuable witness is at hand from the inner money circle to prove that this was the case. Mr. Solomon, a partner of Speyer & Co., International bankers, made the following statement in the Forum for July, 1895, entitled, 'Sound Currency and the Dominant Issue.'"

"It was well understood that a reform of the tariff was to be the nominal issue of the campaign of 1892, and that all the changes were to be run upon that theme, but enthusiasm for reform of the tariff would not have produced * * * the sinews of war (Campaign contributions). What did produce them was the conviction that the triumph of the Democratic party, with Cleveland at its head, would mean repeal of the purchasing clause of the Sherman Act.'

"This article was written by Mr. Solomon, who was in a position to know the facts, and he put himself on record as above, three years after the people thought they had elected Cleveland upon the Tariff Issue.

"At this time (1892) the Government was purchasing and putting into circulation 4,500,000 ounces of silver a month, represented by silver certificates. This the banks determined to stop, and as soon as Cleveland had taken the oath of office as President of the United States, the American Bankers' Association, realizing that there was a large majority in Congress against the repeal of this Act whereby the Government was issuing additional currency, determined to force its repeal by creating a panic * * *.

A Plan to Destroy the Prosperity and Welfare of the American People

"Just eight days after Cleveland was sworn into office, on March 12, 1893, the American Bankers' Association, representing the Incorporated National Banks of the United States, through their all-powerful influence and control of the currency of this country, deliberately planned to destroy the prosperity and business welfare of over 80,000,000 people in order to increase their stranglehold on the Monetary System of the United States, their plan being to drive the people into misery and poverty, hiding their intentions by loudly proclaiming that it was due to the Government adding to the currency by issuing silver certificates, charging that the panic was brought on by the Government using silver bullion and issuing silver certificates to increase the currency.

"Fortunately, the Panic circular (quoted in preceding pages) sent out on the 12th of March, 1893, by this organization, The American Bankers' Association, is at hand and can be correctly designated as the panic circular of the organized money power of the United States, as it was the immediate and only cause of the panic of 1893.

"* * * the next step taken by this association of the banking interests' was "to absolutely discredit and convert into debts, \$350,000,000 of money that had already been issued by the Government."

"...The unthinking cannot realize the far-reaching significance of this decision. It was the first time in the history of money of the world that a dollar was decided to be a debt redeemable in another dollar." (*Real Money Versus False Money – Bank Credits*, pp. 69, 763, 75.)

Wall Street Pushes for a Central Bank in America

From 1893 until 1913 J. P. Morgan & Company and other influential bankers in New York City worked unceasingly for the creation of a central bank patterned after the Bank of England. The various financial panics led to the creation of a National Monetary Commission in 1908 and it ultimately recommended the creation of a central bank in America patterned after those in Europe. The bankers moved quickly to consolidate their control over the money supply of America. On December 23, 1913, the U. S. Senate passed a bill creating the Federal Reserve System. The control of the monetary system of America was firmly in the hands of J. P. Morgan and Company. Concerning the origins of the Federal Reserve System, Professor Antony C. Sutton, former Research Fellow at the Hoover Institution at Stanford has written:

"The Federal Reserve system is a legal private monopoly of the U.S. monetary system. Governmental influence is minimal; not even a General Accounting Office audit of the books is permissible. The Federal Reserve System has absolute power to issue notes and create credit and to do this for its own private profit, without accounting to Congress or anyone else. It is quite a remarkable system – the monopoly to end all monopolies!

"How did this magnificent banking cornucopia ever receive the sanction of Congressional approval, and how does the Federal Reserve System evade investigation and audit? Oddly enough, very few factual studies have been made of the pressures and power plays that brought the system into being and which have carefully protected the system from public probes.

The Federal Reserve System Is the Brainchild of German Banker Paul Warburg

"We do know this much: the Federal Reserve System is the brainchild of a single man, German banker Paul Warburg, who apparently was determined to share the 'benefits' of central banking and fiat-note issues with the United States.

"Although the Federal Reserve System differs superficially from the European practice of central banks (there are twelve Federal Reserve districts, for example) the system is modelled on the German Reichsbank principle....

"The financial panic of 1907 was used by Congress as an excuse to form a national Monetary Commission. For two years this Commission roamed Europe studying European banking, at a cost to American taxpayers of \$300,000. Out of this junket came a series of studies which promoted the concept of a private central bank for the United States.

A Secret Meeting at Jekyll Island

"The groundwork for the Federal Reserve System was laid at an unpublicized meeting at the J. P. Morgan Country Club on Jekyll Island, Georgia in November 1910. Senator Nelson Aldrich, bankers Frank Vanderlip (president of National City Bank and representing Rockefeller and Kuhn Loeb interests), Henry P. Davison (senior partner of J. P. Morgan), and Charles D. Norton (president of Morgan's First National Bank), met in secret to decide how to foist a central bank system on the United States. Others at the meeting were Paul Moritz Warburg, the German banker, and Benjamin Strong (a Morgan banker who later became first Governor of the Federal Reserve Bank of New York).

"Out of the Jekyll Island cabal came the basic bill passed by Congress and signed into law by President Woodrow Wilson as the Federal Reserve Act of 1913....

"In his autobiography, *From Farm Boy to Financier*, Jekyll Island participant Frank Vanderlip was quite open about the origins of the Federal Reserve System:

"Our secret expedition to Jekyll Island was the occasion of the actual conception of what eventually became the Federal Reserve System. The essential points of the Aldrich Plan were all contained in the Federal Reserve Act as it was passed.'

The Central Bank Creates Money

"What does this Federal Reserve System do? The system creates money. It does so both as currency (Federal Reserve notes) and through its ability to influence the level of bank reserves, by creation of bank credit. The great virtue of this system, as seen through the eyes of the Fed itself, is that it provides 'elasticity.' six decades of this 'elasticity,' the Fed claims have produced growth in the economic system. FRS apologists compare this to pre-1913 when, it is argued, the money system could not grow because of an 'inelastic currency.' The latter assertion is subject to considerable disagreement, but, more importantly, the cost of an elastic currency has been depreciation of money and a monumental debt structure that is now in danger of collapse. In fact, the arguments put forward by the Federal Reserve System in favor of its operation do not differ from arguments put forward for other debt-creation schemes several centuries ago.

"In addition to a monopoly over the money system, the Federal Reserve exerts influence through the 'revolving door' of New York-Washington appointments. Officials of the FRS frequently are appointed to the executive branch in Washington. Having determined U.S. policy, they then return to New York to reap the benefits. (*The War on Gold*, Seal Beach, California: 76 Press, 1977, pp. 84-85.)

The Jekyll Island Conference

Another interesting account of the origin of the Federal Reserve System comes from Ferdinand Lundberg, author of *America's Sixty Families*. He said:

"The Federal Reserve Act was the offshoot of a bill originally presented in the Senate by the dubious Aldrich, whose measure incorporated the collective wisdom of a monetary commission under his chairmanship. The ideas of the commission in turn emanated from the fertile brains of the Wall Street clique, whose deputies worked out the details in 1908 at the remote Jekyll Island club, Jekyll Island, off the Georgia coast, during an ostensible duckhunting expedition. Among those present were Paul M. Warburg, partner of Kuhn, Loeb and Company; Henry P. Davison, partner of J. P. Morgan and Company; Frank A. Vanderlip, president of the National City Bank; Dr. Piatt Andrew, special assistant to the Senate Monetary Commission; and Benjamin Strong, vice-president of the Bankers Trust Company (Morgan).

"The protected Jekyll Island conference took place in the atmosphere of an elaborate conspiracy. The trip to Georgia was made in a private car chartered by Aldrich, and the travelers all used assumed names so that the train crew would not establish their identities. For a long time there was no public knowledge that such a conclave had been held.

Wall Street Wanted a New Central Bank

"The financiers wanted a central bank on the European model, to facilitate the large-scale manipulation of the national economy. An instrument was desired that would function as had the United States Bank, smashed by President Andrew Jackson because it concentrated immense monetary power in private hands.

"But when Aldrich introduced the scenario produced by the Jekyll Island duck hunters it was immediately hooted down as a nefarious Wall Street enterprise and, for the time being, came to naught.

"The task of the liberal Wilson Administration was to place essentially the Jekyll Island measure on the statute books, but in an eccentric guise. The job of drawing up such a bill was given to Paul M. Warburg, one of the Jekyll Island plotters. Warburg collaborated with all the big financiers, as his own memoirs reveal, and when Administration views were needed he conferred with Colonel Edward M. House, Wilson's roving commissioner. House attained world eminence

by the masterly feat of keeping the Texas delegation solidly for Wilson at the 1912 convention.

The Jekyll Island Scheme for a Central Bank

"The Warburg-Wall Street draft, superficially revised by Wilson and Senator Carter Glass of Virginia, was simply the Jekyll Island duck hunters' scheme for a central bank, dressed up in fancy toggery. There was some opposition to it from uninformed Wall Street quarters, but it was, significantly, endorsed by the American Bankers Association.

Power Is Concentrated in the Federal Reserve Bank of New York

"In practice the Federal Reserve Bank of New York became the fountainhead of the system of twelve regional banks, for New York was the money market of the nation. The other eleven banks were so many expensive mausoleums erected to salve the local pride and quell the Jacksonian fears of the hinterland. Benjamin Strong, one of the original duck hunters, son-in-law of E.C. Converse, and Converse's successor as president of the Bankers Trust Company, was selected as the first Governor of the New York Reserve Bank. An adept in high finance, Strong for many years manipulated the country's monetary system at the discretion of directors representing the leading New York banks. Under Strong the Reserve System, unsuspected by the nation, was brought into interlocking relations with the Bank of England and the Bank of France, greatly strengthening the financial fabric of the political *status quo* in the western hemisphere. While Wall Street, during and after the World War, moved on to ever enlarging profits, the farmers, whom the Reserve System was ostensibly created to assist, went from bad to worse. (Ferdinand Lundberg, *America's 60 Families*, New York: The Citadel Press, 1946, pp. 121-123.)

The House of Morgan Plan for a Central Bank

Ron Chernow, the author of a monumental study of J. P. Morgan and Company, provided us with the following insights concerning the origin of the Federal Reserve System. He stated:

"One final episode in this last flowering of Progressive reform should be noted. On December 23, 1913, President Wilson signed the Federal Reserve Act. Wilson, of course, had insisted on a Federal Reserve Board in Washington under political, not banker, control. 'There are only two choices,' he said. 'Either to give the central control to the bankers or to give it to the government.' Earlier in the year, Jack [J. P. Morgan, Jr.] had gone down to Washington with the Morgan plan for a central bank under private control. J. P. Morgan and Company had not only formulated a scheme but had it beautifully printed up. When Wilson's close adviser, Colonel House, saw what Jack had brought, he hastily told him to present it to Wilson

typed on ordinary paper, lest Bryan and the Progressives think the House of Morgan was dropping off a prearranged plan.

Real Financial Power Remained on Wall Street

"The Federal Reserve System that went into operation in November 1914, was, in many ways, a Morgan godsend. It took some political heat off the bank. As Fed historian William Greider has written, 'As an economic institution, the Fed inherited the noblesse-oblige role that the House of Morgan could no longer perform – and also some of the resentment.' The diminution of Morgan power was less than met the eye. In many ways, the Washington board, which oversaw the twelve regional banks, was toothless. The New York Fed, in contrast, emerged as the focal point for dealing with European central banks and the foreign-exchange markets. So, real financial power remained where it had always resided – on Wall Street.

"The critical position in the new system was the governor of the New York Federal Reserve bank. Its first occupant, Benjamin Strong, had Morgan written all over his resume. He was a protege of Harry Davison, who had made him a secretary of Bankers Trust and brought him in as Pierpont's personal auditor during the 1907 panic. There was an emotional bond between the two men. When Strong's wife committed suicide after childbirth and a daughter died a year later, the Davisons took the three surviving Strong children into their home. Strong then married Katherine Converse, daughter of Bankers Trust's president, and had become president himself by 1914.

Reformers in Washington, D.C. Frustrated in Reform Efforts

"That year, when the New York Fed job became available, Strong balked at taking it. Not only had he supported the bankers' Aldrich plan, but he had even campaigned against the Federal Reserve Act. Only after spending a long country weekend with Harry Davison and Paul Warburg did he take the job. Strong wanted to endow the New York Fed with the dignity and prestige of the Bank of England. The House of Morgan directed him to Teddy Grenfell for tutorials on how that bank operated. Through Strong's influence, the Federal Reserve System would prove far more of a boon than a threat to Morgans. The New York Fed and the bank would share a sense of purpose such that the House of Morgan would be known on Wall Street as the Fed bank. So, contrary to expectations, frustrated reformers only watched Morgan power grow after 1913. (Ron Chernow, *The House of Morgan*, New York, Touchstone, 1990, pp. 181-182.)

Federal Reserve System Controls the Money Supply in America

From 1913 to the present, the Federal Reserve has presided over the monetary system of America. The various inflations and depressions in America can be traced directly to the policies of the Federal Reserve Board. The policies which

have come forth from New York City and Washington, D. C. have always benefited the elite financial oligarchy in America and their fraternity throughout the world. The American people have been plundered out of billions and billions of dollars by the sophisticated crowd of central bankers and international bankers throughout the world. Very few studies have been done on the Federal Reserve in America due to the power and influence of the elite in America who control the various foundations and think tanks along with the major media outlets. The average American citizen has been left in the dark.

The Federal Reserve System Should Be Abolished

On November 20, 1994 Milton Friedman, Noble Laureate for Economics, was interviewed on C-SPAN's Book Notes. He was asked the following question:

Question: What do you think of the Federal Reserve Board today?

Friedman: I've long been in favor of abolishing it. There's no institution in the United States that has such a high public standing and such a poor record of performance.

Question: What did Arthur Burns think of that?

Friedman: He didn't like that very much, but, needless to say, I didn't hesitate to say it to him. Look, the federal reserve system was established in 1914, started operation in 1914. It presided over a doubling of prices during World War I. It produced a major collapse in 1921. It had a good period from about 1922 to about '28. Then it undertook actions which led to a recession in 1929 and '30, and it converted that recession by its actions into the Great Depression. The major villain in the Great Depression was, in my opinion, unquestionably the federal reserve system. Since that time, it presided over a doubling of prices during World War II. It financed the inflation of the 1970s. On the whole, it has a very poor record. It's done far more harm than good." ("Milton Friedman," Book Notes, Washington, D.C., C-SPAN, November 20, 1994, pp. 12-13.)

Courageous Individuals Have Warned the American People About the Federal Reserve

It is indeed a remarkable phenomena that the Federal Reserve System is still functioning today. The American people were warned about the dangers of private banking by such courageous individuals as Charles Lindberg, Sr., Louis McFadden, Wright Patman, and others. Nevertheless, their voices were silenced by powerful interests. It is even more remarkable when we realize that the international banking fraternity has had almost virtual control of money and its issuance since the inception of the Republic.

Central Banks Are Only Instruments Which International Bankers Use to Accomplish Their Long-Range Goals

The United States and its people have been continually manipulated to increase the financial power of the international bankers. For centuries the international bankers have endeavored to establish central banks in every country. Today this has been accomplished. The Federal Reserve Bank is one of the most powerful institutions in the world, however, as Carroll Quigley pointed out, the central banks and bankers are only tools or instruments of the real financial powers who operate in privacy and secrecy. Carroll Quigley outlined the goals of the international bankers as follows:

"... [T]he powers of financial capitalism had another far-reaching aim, nothing less than to create a world system of financial control in private hands able to dominate the political system of each country and the economy of the world as a whole. The system was to be controlled in a feudalist fashion by the central banks of the world acting in concert by secret agreements arrived at in frequent private meetings and conferences. The apex of the system was to be the Bank for International Settlements in Basle, Switzerland, a private bank owned and controlled by the world's central banks which were themselves private corporations. Each central bank, in the hands of men like Montagu Norman of the Bank of England, Benjamin Strong of the New York Federal Reserve Bank, Charles Rist of the Bank of France, and Hjalmar Schacht of the Reichsbank, sought to dominate its government by its ability to control Treasury loans, to manipulate foreign exchanges, to influence the level of economic activity in the country, and to influence cooperative politicians by subsequent economic rewards in the business world.

The Bank for International Settlements in Basle, Switzerland

"In each country the power of the central bank rested largely on its control of credit and money supply. In the world as a whole the power of the central bankers rested very largely on their control of loans and of gold flows. In the final days of the system, these central bankers were able to mobilize resources to assist each other through the B.I.S., where payments between central banks could be made by bookkeeping adjustments between the accounts which the central banks of the world kept there. The B.I.S. as a private institution, was owned by the seven chief central banks and was operated by the heads of these who together formed its governing board. Each of these kept a substantial deposit at the B.I.S., and periodically settled payments among themselves (and thus between the major countries of the world) by bookkeeping in order to avoid shipments of gold. They made agreements on all the major financial problems of the world, as well as on many of the economic and political problems, especially in reference to loans, payments, and the economic future of the chief areas of the globe.

The BIS Is the Apex of the Structure

"The B.I.S. is generally regarded as the apex of the structure of financial capitalism whose remote origins go back to the creation of the Bank of England in 1694 and the Bank of France in 1803. As a matter of fact its establishment in 1929 was rather an indication that the centralized world financial system of 1914 was in decline. It was set up rather to remedy the decline of London as the world's financial center by providing a mechanism by which a world with three chief financial centers in London, New York, and Paris could still operate as one. The B.I.S. was a vain effort to cope with the problems arising from the growth of a number of centers. It was intended to be the world cartel of ever-growing national financial powers by assembling the nominal heads of these national financial centers.

Montagu Norman

"The commander in chief of the world system of banking control was Montagu Norman, Governor of the Bank of England, who was built up by the private bankers to a position where he was regarded as an oracle in all matters of government and business. In government the power of the Bank of England was a considerable restriction on political action as early as 1819 but an effort to break this power by a modification of the bank's charter in 1844 failed. In 1852, Gladstone, then chancellor of the Exchequer and later prime minister, declared, 'The hinge of the whole situation was this: the government itself was not to be a substantive power in matters of Finance, but was to leave the Money Power supreme and unquestioned.'

The Power of the Bank of England

"This power of the Bank of England and of its governor was admitted by most qualified observers. In January, 1924, Reginald McKenna, who had been chancellor of the Exchequer in 1915-1916, as chairman of the board of the Midland Bank, told its stock holders: 'I am afraid the ordinary citizen will not like to be told that the banks can, and do, create money.... And they who control the credit of the nation direct the policy of Governments and hold in the hollow of their hands the destiny of the people.' In that same year, Sir Drummond Fraser, vice-president of the Institute of Bankers, stated, 'The Governor of the Bank of England must be the autocrat who dictates the terms upon which alone the Government can obtain borrowed money.' On September 26, 1921, *The Financial Times* wrote, 'Half a dozen men at the top of the Big Five Banks could upset the whole fabric of government finance by refraining from renewing Treasury Bills.' Vincent Vickers, who had been a director for the bank for nine years, said, 'Since 1919 the monetary policy of the Government has been the policy of the Bank of England and the policy of the Bank of England has been the policy of Mr. Montagu Norman.' On November 11, 1927, the *Wall Street Journal* called Mr.

Norman 'the currency dictator of Europe.' This fact was admitted by Mr. Norman himself before the court of the bank on March 21, 1930, and before the Macmillian Committee five days later.

Montagu Norman's Unprecedented Position of Power

"Montagu Norman's position may be gathered from the fact that his predecessors in the governorship, almost a hundred of them, had served two-year terms, increased rarely, in time of crisis, to three or even four years. But Norman held the position for twenty-four years (1920-1944), during which he became the chief architect of the liquidation of Britain's global preeminence....

"...Norman had a devoted colleague in Benjamin Strong, the first governor of the Federal Reserve Bank of New York. Strong owed his career to the favor of the Morgan Bank, especially of Henry P. Davison, who made him secretary of the Bankers Trust Company of New York (in succession to Thomas W. Lamont) in 1904, used him as Morgan's agent in the banking rearrangements following the crash of 1907, and made him vice-president of the Bankers Trust (still in succession to Lamont) in 1909. He became governor of the Federal Reserve Bank of New York as the joint nominee of Morgan and of Kuhn, Loeb, and Company in 1914. Two years later, Strong met Norman for the first time, and they at once made an agreement to work in cooperation for the financial practices they both revered.

"These financial practices were explicitly stated many times in the voluminous correspondence between these two men and in many conversations they had, both in their work and at their leisure (they often spent their vacations together for weeks, usually in the south of France).

Central Banks Were to Be Free of Political Control

"In the 1920's, they were determined to use the financial power of Britain and of the United States to force all the major countries of the world to go on the gold standard and to operate it through central banks free from all political control, with all questions of international finance to be settled by agreements by such central banks without interference from governments.

"It must not be felt that these heads of the world's chief central banks were themselves substantive powers in world finance. They were not. Rather, they were the technicians and agents of the dominant investment bankers of their own countries, who had raised them up and were perfectly capable of throwing them down. The substantive financial powers of the world were in the hands of these investment bankers (also called 'international' or 'merchant' bankers) who remained largely behind the scenes in their own unincorporated private banks. These formed a system of international cooperation and national dominance which was more private, more powerful, and more secret than that of their agents in the central banks. This dominance of investment bankers was based on their control over the

flows of credit and investment funds in their own countries and throughout the world. They could dominate the financial and industrial systems of their own countries by their influence over the flow of current funds through bank loans, the discount rate, and the rediscounting of commercial debts; they could dominate governments by their control over current government loans and the play of the international exchanges. Almost all of this power was exercised by the personal influence and prestige of men who had demonstrated their ability in the past to bring off successful financial coups, to keep their word, to remain cool in a crisis, and to share their winning opportunities with their associates. In this system the Rothschilds had been preeminent during much of the nineteenth century, but, at the end of that century, they were being replaced by J. P. Morgan whose central office was in New York, although it was always operated as if it were in London (where it had, indeed, originated as George Peabody and Company in 1838). Old J. P. Morgan died in 1913, but was succeeded by his son of the same name (who had been trained in the London branch until 1901), while the chief decisions in the firm were increasingly made by Thomas W. Lamont after 1924...." (*Tragedy and Hope: A History of the World in Our Time*, 1966, The Macmillian Co., N.Y., pp. 324-327.)

The goal of international bankers is to 'create a world system of financial control in private hands able to dominate the political system of each country and the economy of the world as a whole.' This is a remarkable admission by Mr. Quigley. However, events in the twentieth century attest to the truthfulness of the statement.

The Creation of a Global Federal Reserve System

Once the central banking institutions were created the next step was to create, in 1929, the Bank for International Settlements in Basle. The BIS, as noted by Quigley, was to coordinate the central banking structure. The next step was to move toward the creation of a global federal reserve system for the world. The IMF, IBRD, and the OECD were created to nudge the world in this direction. With the creation of the SDR and greatly strengthened powers, movement toward a global currency and a global world bank are proceeding.

These institutions are being assisted by the General Agreement on Tariffs and Trade. Recently, a new World Trade Organization was created to replace the General Agreement on Tariffs and Trade. Today the BIS, IMF, OECD, IBRD, and the WTO are the key mechanisms used by the financial oligarchy for control of money, trade and natural resources on a global scale.

18. World Trade Organization – Managed Trade on a Global Scale

In September of 1986 trade negotiators from throughout the world gathered in Punta del Este, Uruguay for the beginning of the Seventh "Round of renegotiation

of the General Agreement on Tariffs and Trade. These meetings became known as the Uruguay Round. The General Agreement on Tariffs and Trade, known as GATT, came into being in October of 1947. Over the years, trade negotiations have increased the powers of GATT in order to reduce trade barriers throughout the world. The Uruguay Round dealt with such subjects as tariffs, textiles and clothing, dumping, subsidy restrictions, agriculture, intellectual property and generalized systems of preferences. The negotiators concluded their work on December 15, 1993.

The Most Far-Reaching Global Trade Agreement in History

Laura D. Tyson, Chairwoman of President Bill Clinton's Council of Economic Advisors stated that: "The Uruguay Round of GATT is the most far-reaching global trade agreement in history." (*Wall Street Journal*, May 27, 1994, p. A10.)

Congressman Sam Gibbon (D-Florida), the former Chairman of the House and Ways Committee in the U.S. House of Representatives, stated that the Uruguay Round 'is the most important economic step taken by mankind.' (*USA Today*, November 17, 1994, p. 5A.)

Senator John H. Chafee (R-Rhode Island) said that the GATT Agreement "will take its place as one of the most important global agreements – both in terms of its size and in terms of its impact – ever fashioned." (*Congressional Quarterly*, December 3, 1994, p. 3448.)

World Trade Organization to Encroach on U.S. Sovereignty

As a result of the Uruguay Round, "whole new areas of international commerce and trade law will come under multilateral discipline through the newly created World Trade Organization (WTO), which will replace and significantly beef up existing General Agreement on Tariffs and Trade (GATT)." (Ibid.) The *National Journal* noted that: "the WTO's expanding jurisdiction and its encroachment on U.S. sovereignty troubles both conservatives on the Right and environmental and labor activists on the Left." (Ibid.) The AFL-CIO complains that, "It removes trade even further from the Washington political nexus." (Ibid.) The Uruguay Round was signed by U.S. Trade Representative Mickey Kantor and other trade officials on April 15, 1994 in Marrakesh, Morocco. Although the agreement allowed individual nations until July 1, 1995 to adopt the GATT Revisions, the advanced nations, including the U.S. agreed to fast-track the adoption phase by agreeing to put the agreement into force on January 1, 1995.

Obstacles to Passage of GATT Agreement

President Bill Clinton had hoped that Congress would pass the implementing legislation before it recessed for the summer, however, the new agreement ran into obstacles on Capitol Hill. The first obstacle was the debate over the budget waiver

required before Congress could vote on the implementing legislation. The second obstacle was the implementing legislation itself – it was 4,000 pages long. The third obstacle was the GATT Revision itself – it was 22,000 pages long and very complex. The fifth obstacle was the World Trade Organization – the new agreement replaced the GATT trade mechanism for resolving trade disputes with a new international institution with greatly enhanced powers. The last obstacle was GATT itself – many in the Congress felt it violated U.S. sovereignty and infringed upon U.S. law and state law. The seventh obstacle was the allegation that the GATT Agreement should be handled as a treaty, not as an Executive Agreement and under fast-track authority – the latter method limited debate to 20 hours in the Senate, four hours in the House, no amendments were allowed and all Congress could do was approve or disapprove the legislation.

White House Seeks \$12 Billion Package to Pay for Tariff Loss

The Wall Street Journal outlined the debate over the budget waiver in an article entitled, 'White House Seeks \$12 Billion Package to Pay for Tariff Losses Under GATT,' as follows:

"The Clinton administration is proposed to pay for the world trade pact with more than \$12 billion in tax increases and spending cuts that demonstrate how politically difficult it will be to push the agreement through Congress.

"The five-year revenue package under discussion with lawmakers crosses so many powerful groups – such as broadcasting, agriculture and retailing – that some trade veterans don't believe the administration intends to go forward with it. Instead, the exercise would pressure Congress to approve a waiver from federal budget laws that require offsetting funds for new programs that increase the deficit.

"U.S. Trade Representative Mickey Kantor yesterday said, however, that the administration won't seek a waiver to make up for the \$14 billion in estimated lost tariffs over the first five years of the world trade pact. He called the administration's effort 'serious' and said that officials are negotiating with lawmakers over the contents of a final revenue package.

"Mr. Kantor did say that the administration would seek a waiver for the second half of a 10-year period called for by Senate rules. The tariff loss over 10 years is estimated at \$40 billion. Such a waiver would require 60 votes in the Senate.

Congress Concerned with \$12 Billion Loss of Revenue Over Agreement

"Treasury Secretary Lloyd Bentsen told a group of reporters that he has been fielding inquiries from finance ministers about whether Congress will approve the pact, which was negotiated under the auspices of the General Agreement on Tariffs and Trade. Passage is 'no cinch by any means,' he said, because of lawmakers'

concerns about funding and whether the pact would diminish U.S. sovereignty..." (*Congressional Record*, May 10, 1994, pp. S5480-S5481.)

Loss of U.S. Sovereignty Under GATT

Several members of Congress were very concerned over the loss of U. S. sovereignty under the new GATT agreement. On June 24, 1994 Congresswoman Bentley of Maryland stated the following on the House floor:

"Mr. Speaker. President Clinton is urging the public to pressure Congress into passing the expanded General Agreement on Tariffs and Trade [GATT] this year, not next. That, despite estimates that tariff cuts negotiated in the treaty could cut \$12 to \$14 billion from Federal revenue over 5 years.

"The loss of revenue is a major concern. However, what is more distressing is the loss of sovereignty of the United States under the agreement.

"Individual States and American citizens are waking up to the truth about GATT. According to the North Carolina Winston-Salem Journal, the new GATT can be used to overturn tax laws that foreigners consider unfair.

"American citizens understand this fact and also are loudly voicing concerns about the loss of sovereignty of the United States under the World Trade Organization [WTO], one of the 200 agreements included in GATT. Those concerns are legitimate.

"GATT supporters insist they will be able to make up the revenue loss through eventual economic growth. However, once you've lost your sovereignty, it is gone.

"Countries assuming the right to reject GATT rulings as a sovereign prerogative were criticized by Peter Sutherland, director general of the GATT in a June 16 Reuters story.

"In his interview, Mr. Sutherland said countries assuming the right to reject GATT rulings as a sovereign prerogative amounts to a country choosing to be above the law whenever it is inconvenient to observe the law and this option would not be open to countries under the WTO.

U.S. to Live Under International Law

"That means the United States of America is expected to abide by and live under the WTO law – laws made by international bureaucrats, trade lawyers and other approved representatives from 118 nations and not – I repeat – not your elected representatives.

"Proof of this fact is in a Wall Street Journal story which reported on a letter written about the telecommunications bill by U.S. Trade Representative Mickey Kantor.

"In his letter, Ambassador Kantor warned Members of Congress who sought to require jobs for Americans in the bill.

"That the local manufacturing and local content requirements [in the telecommunications bill] would be inconsistent with existing U.S. obligations under the GATT.

"When he was questioned about what the United States could do if it violated the WTO provision, Ambassador Kantor replied by citing both NAFTA and GATT that

"If a dispute settlement panel found the provision [the U.S. law] to be inconsistent with the NAFTA, the United States would have the choice of either bringing the provision into conformity with the NAFTA, through congressional amendment or agreeing on alternative trade compensation.'

"In other words, the United States has no other choice but to adhere to regulations set up by an organization made up of 118 nations.

WTO Law Will Supersede U.S. Laws

"Under the new GATT, Congress will have limited power over trade. If passed, the WTO and GATT commission will supersede U.S. law. We cannot allow this to happen.

"In criticizing opponents to the GATT, one newspaper headline read, 'Silliness About Sovereignty.'

"I disagree heartily that protecting the rights of Americans is silly. To quote Thomas Jefferson in a March 1809 address to the citizens of Washington Country, MD. 'The care of human life and happiness, and not their destruction, is the first and only legitimate object of good government.'

"It seems to me that a sovereign nation is obligated to act to protect its citizens. Not after the NAFTA and not under the WTO.

"Florida found out what happens with the dumping of Mexican tomatoes into the State which is destroying the Florida farmers. Now, the fresh-cut flower industry is suffering because of the dumping of roses from South America at below market prices. Neither the State nor the Federal Government can act to protect those businesses.

"Our Founding Fathers would turn over in their graves if they knew what is happening to this country under these international agreements." (*Congressional Record*, pp. H4993-H4994.)

The U.S. Will Be Under the Jurisdiction of the World Trade Organization

Congresswoman Bentley outlined that if the U.S. adopted the new GATT agreement, it would place the U.S. under the jurisdiction of the WTO and that the laws made by "international bureaucrats, trade lawyers and other approved representatives from 118 nations" would be obligatory upon the U.S. The Congresswoman expressed the view that the "WTO and GATT Commission will supersede U.S. law."

Transfer of Congressional Power to WTO

By mid-summer in 1994, opposition to the new GATT agreement was gaining momentum on Capitol Hill. Congressman Newt Gingrich stated at a hearing that "We are transferring substantial power to an international body that can coerce us to change our behavior." (*Congressional Record*, August 4, 1994, p. S10584.)

Sense of the Senate Resolution on GATT

On July 13, 1994, Senator Strom Thurmond introduced a "Sense of the Senate" Amendment to a bill under consideration. The purpose of the amendment was, "To express the sense of the Senate regarding creation of the World Trade Organization and implementation of the Uruguay Round Agreements." The amendment stated:

"(a) FINDINGS. – The Senate makes the following findings:

"(1) The United States recently signed the Uruguay Round Agreement which included among its provisions the establishment of a new supranational governing body known as the World Trade Organization (hereafter in this section referred to as the 'WTO').

"(2) The legislation approving fast track authority and giving the executive branch negotiators specific objectives did not authorize the elimination of the current General Agreement on Tariffs and Trade structure and the creation of a new, more powerful world-governing institution.

"(3) The Congress has the constitutional prerogative to regulate foreign commerce and may be ceding such authority to the WTO.

"(4) The initial membership of the WTO is 117 nations. The United States will have only one vote and no veto rights in the WTO.

"(5) The single vote structure will give the European Union the capacity to out vote the United States 21 to 1. It will also give the island nation of St. Kitts, with a population of 60,000, the same voting power as the United States.

"(6) The United States will have less than 1 percent of the total vote, but will be assessed almost 20 percent of the total cost of operating the WTO.

"(7) The one vote no veto structure of the WTO will increase the power of nations which are not democracies and do not share our Nation's traditional notions of capitalism and freedom.

"(8) Any United States law can be challenged by a WTO member as an illegal trade barrier and such challenge will be heard by a closed tribunal of 3 trade lawyers.

"(9) The United States must eliminate any law that a WTO Tribunal finds to be in conflict with the trade rules of the WTO or the United States will face severe trade sanctions.

"(10) The WTO would effectively set the parameters within which United States Federal, State, and local legislators can maintain or establish domestic policy on the broad array of issues covered under the nontariff provisions of the WTO.

"(11) State officials have no standing before WTO tribunals even if a State law is challenged as an illegal trade barrier.

"(12) The WTO would require the United States Federal Government to preempt, sue, or otherwise coerce States into following the WTO trade rules which the States did not negotiate and to which they are not a legal party.

"(13) The Attorneys General from 42 States have signed a letter to the President expressing their concern over States rights under the WTO and have asked for a summit to discuss these issues.

"(14) WTO decisions could result in shifts in State and local tax burdens from foreign multi-national corporations to American businesses, farmers, and homeowners.

"(15) Under pay-as-you-go budget rules, the revenue losses from tariff reductions must be offset over a 10-year period.

"(16) The Congressional Budget Office has estimated that such tariff reduction will cost approximately \$40,000,000,000.

"(17) When the United States joined other supranational governing bodies, the United States retained rational precautions such as permanent seat on the Security Council and veto rights in the United Nations, and a voting share in the International Monetary Fund that is commensurate with its role in the global economy.

"(18) The WTO Agreement prohibits unilateral action by the United States, including action against predatory and unfair trade actions of other member nations.

"(19) The dispute settlement mechanisms to be used by the WTO will be conducted in secret and in a manner that is not consistent with the guarantees of judicial impartiality and due process which characterize the United States judicial tradition.

"(20) The WTO Agreement is already resulting in substantial changes and erosion of existing United States law.

"(21) Neither the United States Congress nor the American people have had an opportunity to analyze and debate the long-term impact of the United States membership in the WTO.

"(22) Traditionally the United States has entered into international obligations that impact on domestic sovereignty and law and that have the legal stature and permanence that the WTO has, by using treaty ratification procedures.

"(23) The United States Senate rejected, on sovereignty grounds, executive branch attempts to secure ratification of a similar supranational organization known as the International Trade Organization when it was offered repeatedly between 1947 and 1950. The Organization for Trade cooperation was rejected by the Senate in 1955.

"(24) Under the rules of fast track, the United States Senate cannot change or amend provisions creating the WTO and is limited to 20 hours of debate.

"(b) POLICY. – It is the policy of the Senate that –

"(1) a task force composed of members of Congress and the executive branch be established to study and report to the Congress and the President within 90 days on whether the provisions creating the World Trade Organization should be treated as a treaty or an executive agreement, and

"(2) a 90-day period be allowed before the introduction of the Uruguay Round implementation legislation and that during that period additional Congressional hearings be held to consider the full ramifications of the United

States joining the WTO, including the impact that joining the WTO will have on State and local laws.

Settlement of Disputes under WTO

"Mr. THURMOND. Mr. President, I rise today , along with the Senator from South Dakota [Mr. Pressler], the Senator from North Carolina [Mr. Helms], the Senator from Idaho [Mr. Craig], to introduce a sense-of-the-Senate resolution concerning the Uruguay round of the General Agreement on Tariffs and Trade [GATT]. This resolution outlines several concerns that many members have with the final text of the GATT.

"As the clerk has just read, many of these concerns regard the creation of the new world trade governing organization called the World Trade Organization [WTO]. The WTO is intended to be the arbitrator of trade disputes between signatory countries. The WTO has two main components: the ministerial conference and the general council. The ministerial conference will meet every 2 years and will receive decisions on matters covered by trade agreements. The general council will govern the WTO on a daily basis. Also established under the general council are several committees to review and make recommendations on more specific issues, such as balance of payments, dispute settlements, and specific sectors of trade.

"The dispute settlement body, which is established under the direction of the general council, will be the ultimate arbitrator of trade disputes. The decisions handed down by the WTO will be voted on by the member countries. Each country gets one vote and, except for some cases, a majority vote rules. While the WTO has been described as a United Nations of trade, the United States will not have veto power over its decisions. All decisions are final.

U.S. Options in a Trade Dispute

"The United States will have four choices of action if the WTO rules against our country. 1 We can either: First, leave the WTO; second, pay tariff penalties to other countries; third, not enforce our domestic laws; or fourth, change our laws to comply with the WTO ruling. Most of the Federal, State, and local laws that would be contested have been enacted to protect our workers and our environment. I fail to say why we need a new supranational organization to control trade.

"Mr. President, in the Omnibus Trade and Competitiveness Act of 1988, which outlined the overall objectives of our trade negotiations, there is no mention of creating a world governing body to administer trade disputes.

Concern Over Loss of U.S. Sovereignty

Senator Thurmond was concerned that the WTO would supersede U.S. law. He quoted an article in the *International Herald Tribune* which confirmed the Senator's apprehensions. The article stated that "It is true the WTO means a loss of congressional sovereignty. But that will be no bad thing if it clips the wings of Capitol Hill's powerful protectionists. It will actually be good for the United States to be overruled by the world organization when Washington tries to take politically motivated action against other countries' exports." (Ibid)

Changes Will Need to Be Made in U.S. Law

The senator also quoted a background briefing paper prepared by the European Commission in Brussels which said: "The agreement on the WTO also contains a binding clause which requires members to bring their national legislation in line with the agreements that are part of the WTO structure...." (Ibid)

It appears that Senator Thurmond's fears concerning the WTO were not unfounded.

Inherent Dangers in GATT Agreement

Senator Larry Craig next spoke on the floor of the senate chamber and outlined what he felt were the dangers inherent in the GATT agreement:

"Mr. President, I raise today to add my support to an amendment offered by Senator Thurmond and to voice my growing concern about the Uruguay round agreement and the General Agreement on Tariffs and Trade and the General Agreement on trade in Services.

"The amendment raises a number of concerns about a provision in the Uruguay round which would establish an international entity which is referred to as the World Trade Organization. This amendment, which is a nonbinding resolution, states that it is the sense of the Senate that a joint Senate administration commission should be convened to perform a 90-day blue ribbon panel report on whether or not the World Trade Organization should be considered as a treaty rather than an Executive agreement. It also requests further hearings, both in Washington, D.C. and in the field of that the ramifications of the World Trade Organization can be fully examined and understood.

"Mr. President, let me be very clear. This amendment does not make the GATT agreement a dead-on-arrival agreement. It simply reflects, I think, the importance of the agreement and the need to fully understand the development of a new international organization prior to our country's acceptance of this agreement.

A Powerful New International Organization

"The World Trade Organization is not a minor change to the structure of the GATT. It creates an entity that is, to me, more than an international organization. Rather, it is a regime with powers that are structurally stronger than those of the United Nations.

"Mr. President, when forming the United Nations, very special care was taken to ensure that the United States would have both veto power and a permanent seat on the Security Council. However, it is apparent that no such effort has been made with regard to the World Trade Organization. In the WTO, the United States could be outvoted by a small coalition of a handful of any given number of nations, regardless of their overall size, population, geographic size, their contribution to world trade itself, their funding contribution to the organization, or their commitment to fair trade and democracy.

A Diverse Coalition of 117 Nations

"The World Trade Organization would initially consist of a diverse coalition of 117 nations. Each member nation of the WTO, including the United States, would have one vote in resolving trade disputes under the auspices of the two agreements, the GATT and the GATS.

"The World Trade Organization would vote on amendments and interpretations of GATT provisions. Against, Mr. President, the United States would be only 1 of 117 votes. Therefore, we could easily be outvoted by Third World countries of the World Trade Organization, as often happens in the United Nations. We have the history of the United Nations to demonstrate that can clearly occur.

U.S. to Pay 20% of WTO Budget

"Another point of frustration is that we will be paying 20 percent of the World Trade Organization budget with a voice behind it of only one vote. Under the GATT, as it currently exists, the United States has veto power and can block a panel decision by denying the necessary consensus to adopt the panel's decision. consensus is also replaced in the World Trade Organization with the following agreements: A two-thirds vote to amend the World Trade Organization, a three-fourths vote to impose an amendment on parties and to adopt the interpretation of World Trade Organization provisions.

"There have been previous attempts to establish a supranational body to cover trade relations and dispute settlements. In other words, Mr. President, this is not the first time these concerns and ideas have been expressed on the floor of the U.S. Senate.

The Fear of Granting Authority over Congressional Powers

"There have been previous attempts to establish, as I mentioned, these supranational organizations. The fear of granting broad authority over our trade rules to a mostly foreign entity led to the repeated rejection by the Senate of the International Trade Organization between 1947 and 1950, and a similar body known as the Organization for Trade Cooperation in 1955.

"Under the interstate and foreign commerce clauses of the Constitution, States cannot discriminate against foreign businesses, including the application of State tax law. therefore, under the GATT currently, the failure of a State to comply with these provisions would result in a U.S. court action where the parties involved would be able to receive fair and open redress of their complaints. The dispute settlement mechanism included in the Uruguay round agreement, on the other hand, would require such matters involving State tax policy and foreign businesses to be brought before the World Trade Organization itself.

WTO Dispute Panel Will Meet in Secret

"It is my understanding, Mr. President, that the World Trade Organization dispute settlement panel can meet in secret and need not consider U.S. constitutional standards nor follow the constraints of U.S. jurisprudence. This is a serious concern, and it must be clarified before this agreement is brought to the Senate floor for ratification.

"It is also my understanding that no individual U.S. State government is guaranteed representation on the World Trade Organization's dispute pane, and the United States cannot reject a World Trade Organization dispute panel mandate without facing foreign retaliation and trade penalties enforced by the World Trade Organization, then that provision in the Uruguay round agreement must be changed.

Protection of State Sovereignty

"In short, Mr. President, States rights must be protected at all costs.

"We said it in 1947 in a similar debate. We said it again in 1955, and I would hope that the U.S. Senate would confirm the Thurmond amendment which would examine and clarify those most important issues.

"Our Nation's Founders, in framing the Constitution, and in the development of our Federal system, never intended that a State relinquish the development and enforcement of its tax policy to a foreign entity like the World Trade Organization.

"It is my understanding that many States have expressed serious concerns over these provisions of GATT and GATS.

"A letter, signed by 42 attorneys general, including Idaho's Attorney General Larry Echohawk, expresses the concerns of our States. It also requests a summit with Federal officials to review States rights issues.

"Mr. President, the attorneys general of the States of our Nation are now requesting our Government that a similar summit be held, and this similar summit has been included in the Thurmond amendment we are now offering today.

State Attorneys General Fear Loss of State Sovereignty

"Let me share with you, Mr. President, what this letter says....

STATE OF MAINE, DEPARTMENT OF THE ATTORNEY GENERAL,

Augusta, ME, July 6, 1994.

HON. WILLIAM J. CLINTON

President of the United States,

Washington, D.C.

DEAR PRESIDENT CLINTON:

"As defenders of State laws, State Attorneys General have a particularly keen interest in State sovereignty. The Uruguay Round of the General Agreement on Tariffs and Trade (GATT), which is to be submitted to Congress under fast-track authority soon, appears to have broad implications for State self-government. Given the paramount importance that the U.S. Constitution assigns to State's rights, we would like to request a State-Federal Consultation Summit on this issue, to be held in July or August, before the Administration submits implementing legislation. Although we have agreed to take the lead on this issue, because it affects all State officials, an invitation would be extended to State executive and legislative branches as well.

"We are requesting a Summit to give State officials the benefit of a thorough airing of concerns about how the Uruguay Round and the proposed World Trade Organization (WTO) would affect State laws and regulations. Many State officials still have questions about how some of our State laws and regulations would fare under the WTO and its dispute resolution panels. This is of particular concern given that some of our trading partners have apparently identified specific State laws which they intend to challenge under the WTO.

"As you know, the U.S. Trade Representative's Office (USTR) is charged with an interesting set of responsibilities. On one hand, its primary responsibility is to promote U.S. exports and international trade. Yet, on the other hand, the Trade

Representative's Office is charged with the responsibility of protecting State sovereignty and defending any State law challenged in the various international dispute tribunals. Given the inevitable conflict in fulfilling both sets of these responsibilities, we would like to take advantage of the proposed Summit to clarify a range of serious concerns, including:

States Will Be Pressured to Change Laws

"Whether the implementing legislation adequately guarantees States that the federal government will genuinely consider accepting trade sanctions rather than pressuring States to change State laws which are successfully challenged in the WTO.

"Whether States have a guaranteed right and a formalized process in which they can participate in defending their own State laws.

"Whether the USTR is required to engage in regular consultation with the States, and involve any State whose measures may be challenged in the defense of that measure at the earliest possible opportunity.

"Whether parties challenging a State measure under GATT will be able to prevail based on the fact that one State is simply more or less restrictive than another State's.

"Whether GATT grants any private party a right of action to challenge a State law in federal court.

"Whether an adverse WTO panel decision can be interpreted as the foreign policy of the United States without the subsequent ratification of the Congress and the President.

"Whether GATT panel reports and any information submitted by the States to the USTR during the reservation process are admissible as evidence in any federal court proceeding.

"Whether a panel decision purporting to overturn State law shall be implemented only prospectively.

"Whether the federal government may sue a State and challenge a State measure under GATT without an adverse WTO panel decision.

"How will adverse WTO panel decisions impact State laws covering pesticide residues, food quality, environmental policy including recycling, or consumer health safety, where State standards are more stringent than federal or international standards.

"Whether so-called 'unitary taxation,' which assesses the State taxes corporations pay on the basis of a corporation's worldwide operations, be illegal under GATT.

"Whether States may maintain public procurement laws that favor in-State business in bidding for public contracts.

"How well protected is a State law if it is included within the coverage of U.S. reservations to new GATT agreements.

"Whether the United States can import some due process guarantees into the WTO dispute resolution system, now that the negotiations are over, the WTO panel proceedings remain closed and documents confidential.

"In responding to our request for this GATT Summit, please have staff contact Christine T. Milliken, Executive Director and General Counsel of the National Association of Attorneys General, at (202) 434-8053. Although the Association has taken no formal position on this issue, the Association provides liaison service upon request when fifteen or more Attorneys General express an interest in a key subject.

"Further, the Association through action at its recent Summer Meeting has instructed staff to develop in concert with the Office of U.S. Trade Representative an ongoing mechanism for consultation. The Association participates in several federal-state work groups, principally with the U.S. Department of Justice and also with the U.S. Environmental Protection Agency that might serve as a starting point for developing a model for an effective ongoing dialogue with the USTR on emerging issues in this key area.

Respectfully yours,

MICHAEL E. CARPENTER,

Attorney General of Maine.

"The following attorneys general signed the letter:

Alabama: Jimmy Evans.

Nevada: Frankie Sue Del Papa.

Alaska: Bruce M. Botelho.

New Hampshire: Jeffrey R. Howard.

Arizona: Grant Woods.

New Jersey: Deborah T. Poritz.

Colorado: Gale A. Norton.

New Mexico: Tom Udall.

Connecticut: Richard Blumenthal.

New York: G. Oliver Koppell.

Delaware: Charles M. Oberly, III.	North Carolina: Micheal F. Easley
Florida: Robert A. Butterworth.	North Dakota: Heidi Heitkamp.
Hawaii: Robert A. Marks.	North Mariana Islands: Richard Weil.
Idaho: Larry EchoHawk.	Ohio: Lee Fisher.
Illinois: Roland W. Burris.	Oregon: Theodore R. Kulongoski.
Indiana: Esmela Fanning Carter.	Pennsylvania: Ernest D. Preate, Jr.
Iowa: Bonnie J. Campbell.	Puerto Rico: Pedro R. Pierluisi.
Kansas: Robert T. Stephan.	Rhode Island: Jeffrey B. Pine.
Kentucky: Chris Gorman.	South Carolina: T. Travis Medlock.
Maine: Michael Carpenter.	Tennessee: Charles W. Burson.
Maryland: J. Joseph Curran, Jr.	Texas: Dan Morales.
Massachusetts: Scott Harshbarger.	Utah: Jan Graham.
Michigan: Frank J. Kelley.	Vermont: Jeffrey L. Amestoy.
Minnesota: Hubert H. Humphrey, III.	Virginia: James S. Gilmore, III.
Mississippi: Mike Moore.	Washington: Christine O. Gregoire.
Missouri: Jeremiah W. Nixon, Jr.	West Virginia: Darrell V. McGraw,
Montana: Joseph F. Mazurek.	Wyoming: Joseph B. Meyer

Concern Over Power of WTO Over State and Local Tax Procedures

"...In addition, Mr. President, I have been working with the Idaho State Tax Commission on the State sovereignty concerns and would like to read the following letter I received from the Idaho State Tax Commission which articulates specific concerns and would like to read the following letter I received from the Idaho State Tax Commission which articulates specific concerns of my home State....

IDAHO STATE TAX COMMISSION,

Boise, ID, May 26, 1994.

Re: Pending GATT/GATS Agreements.

HON. LARRY E. CRAIG

U.S. Senate

Washington, DC.

DEAR SENATOR CRAIG:

We are writing to explain our concern about the power over state and local taxes that the new General Agreement on Tariffs and Trade (GATT) will give the World Trade Organization (WTO). Unless modified significantly, these provisions of the new GATT will undermine state and local fiscal sovereignty and likely favor foreign business over U.S. taxpayers.

"As the administrators of tax laws enacted by the state legislature, we strongly support equal treatment of all taxpayers foreign and domestic. We have no objections to those provisions of the GATT designed to encourage trade. However, the WTO provisions applicable to state and local taxes exceed legitimate trade concerns. They are likely to have unintended, but dangerous, consequences for the sovereignty and citizens of Idaho.

"The central problem is in the dispute settlement mechanism of the GATT and WTO. WTO dispute settlement panels are not bound by U.S. constitutional standards and jurisprudence in evaluating challenges to state tax laws, even though the Interstate and Foreign Commerce clauses of the Constitution effectively prohibit discrimination against foreign entities. The fear and experience of state tax administrators is that such panels may well overturn state and local tax laws, because of some perceived bias against international trade, which are not in fact discriminatory and which are perfectly legitimate under the U.S. Constitution.

"This is precisely what happened in the one international trade case involving state taxation. In a case commonly called "Beer II," a trade panel ruled that a Minnesota law granting preferential tax status to small breweries regardless of where they were located violated the GATT. It held that the small brewer preference must be removed or that equally preferential rates must be accorded large Canadian brewers. There was no evidence of discrimination based on national origin, and there was no evidence of any trade barrier. USTR did not veto or reject this decision. Instead; it has encouraged states to comply with it.

WTO Panel Rulings

"Moreover, unless some action is taken to the contrary, WTO panel rulings can be enforced against a state or local government in the U.S. court system, even though the offending law or policy is otherwise consistent with U.S. constitutional standards. While this is not possible with federal measures, we believe it would be true for state and local laws. With the Congressional adoption of the GATT, dispute panel findings, unless specifically rejected by the U.S. government, can be argued to represent the foreign policy of the U.S. Thus, state and local laws to the contrary would be found to violate the Foreign Commerce Clause of the U.S. Constitution.

"In short, the GATT process provides foreign interests with willing government partners another avenue to challenge state and local tax policies with which they disagree. These challenges will occur in a forum not bound by the U.S. constitutional standards against which state and local laws are shaped and in a forum where states and localities cannot represent themselves. The net result is to place U.S. taxpayers at an unfair disadvantage, compromise state tax sovereignty, and substitute the WTO for the U.S. Supreme Court as the final arbiter of state and local tax policies.

"The Multistate Tax Commission (MTC) and the Federation of Tax Administrators (FTA) have proposed two ways to address these concerns without rejecting the GATT. First, the U.S. government could assert a broad reservation from the national treatment requirements of the GATT for state and local tax laws that meet U.S. constitutional standards. Several suggestions along these lines have been rejected as overly broad or unworkable by the U.S. Trade Representative staff.

"The other approach is to include provisions supporting fiscal federalism in the GATT implementing legislation. The following is a summary of the MTC/FTA proposals for the implementing legislation:

"Rejecting all WTO panel decisions not based on U.S. constitutional standards regarding nondiscrimination against foreign parties or not adopted by action of the U.S. Congress within 120 days of the panel decision;

"Requiring that a state or local law or policy may be declared invalid as being in violation of the GATT only through an action brought by the U.S. government for that purpose;

"Prohibiting (a) retroactive application of WTO panel decisions; (b) use of panel findings and decisions as competent evidence in the U.S. courts; and (c) any private right of action emanating from a WTO panel decision;

"Requiring that affected state and local governments assist in representing their interests before the WTO; and

"Requiring the USTR provide notice to state and local governments at least 180 days before USTR initiates or responds to a complaint about state or local tax policies and practices.

"For detailed information on these proposals, your office may contact Nancy Donohoe, MTC Consultant at (202) 296-8060 or Roxanne Davis, FTA Research Attorney at (202) 824-5890.

"The U.S. Constitution has for 200 years balanced the interests of federalism and free trade. The balance can be accomplished in the GATT only with the types of reservations and implementing legislation outlined above. Your help in preserving this balance is sorely needed. Thank you for your support and commitment to federalism.

Sincerely,

COLEEN GRANT,

Chairman.

R. MICHAEL SOUTHCORBE

Commissioner.

G. ANNE BARKER,

Commissioner.

DUWAYNE D. HAMMOND, JR.

Commissioner.

WTO to Favor Foreign Business

"Mr. CRAIG. Let me read the first paragraph. It says:

"DEAR SENATOR CRAIG: We are writing to explain our concern about the power over state and local taxes that the new General Agreement on Tariffs and Trade (GATT) will give the World Trade Organization (WTO). Unless modified

significantly, these provisions of the new GATT will undermine state and local fiscal sovereignty and likely favor foreign business over U.S. taxpayers.

Potential of Infringements on U.S. Sovereignty

"Let me repeat:

* * * will undermine State and local fiscal sovereignty and likely favor foreign businesses over U.S. taxpayers.

"If that is true, Mr. President, this can simply not be allowed. I say if it is true. That is why the amendment as proposed by Senator THURMOND and that is why the State attorneys general have asked that this Government stop, bring its people together, examine these critical issues before we move toward fast track and implementation.

"Mr. President, there are also problems with the language of the Uruguay round agreement, which has the potential of infringing on State sovereignty.

"The phrasing of provisions to prevent State discrimination against foreign businesses is dangerously vague and would favor foreign entities over American taxpayers in the resolution of disputes.

"I cannot imagine that this Senate, blinded as we often times are and urged to promote world trade, would not have the willingness to stop and look and listen to authorities who can flesh out and explain for us these important provisions.

"Both GATT and GATS are worded in a far less precise manner than existing State tax laws.

"A vague agreement opens the door for unfair and conflicting interpretation.

"For example, under GATT, prohibiting unjustified discrimination against foreign businesses in the United States does not clearly define a specific standard.

State Law and GATT Law

"A State law which fulfills the requirements of the U.S. Constitution, may not meet the broader standard under GATT and GATS.

"The national treatment provision under GATS requires the United States to ensure that foreign services and service providers receive 'treatment no less favorable than that it accords to its own like services and service suppliers.'

"Under the provision, only foreign businesses receiving a negative economic impact resulting from a State law could seek corrective action by the WTO while domestic businesses which are economically harmed by a State guideline would

have no similar avenue of redress. This grants foreign businesses a significant advantage which their domestic counterparts would not enjoy.

"The national treatment provision on the surface looks and sounds like the foreign commerce clause of the U.S. Constitution, but it is significantly different.

State Law May Violate GATT Laws

"Mr. President, I would like to share some information that was included in a memorandum to State tax administrators from two organizations, the Federal of Tax Administrators and the Multistate Tax Commission:

"It reads:

"The standards for proving a violation of national treatment are lower than for proving a violation of the foreign commerce clause.

"Because only foreign taxpayers can benefit directly from the 'national treatment' provision, they will have access to a more favorable set of rules than U.S. taxpayers.

"State tax provisions that might well meet the requirements of the U.S. Constitution may be found to violate GATS.

"The memorandum goes on to cover dispute settlement panels:

"The rulings of trade panels-'dispute settlement bodies' – may become legally binding on the States and local governments even though they are not legally binding on the Federal Government.

"The Federal Government can decide to comply or not comply with an adverse trade panel ruling.

"However, the dormant foreign commerce and national supremacy clauses of the Constitution are binding on States and localities.

"Thus, foreign taxpayers may use the trade panel ruling as evidence in suits against States or Localities and could seek enforcement trade panel rulings in our courts on the basis that they reflect the foreign commercial policies of the United States.

"The memorandum also states that:

"Because of these interactions between trade agreements and the U.S. constitutional law, we think that State and local tax authority will be undermined, tax burdens may increasingly shift from foreign taxpayers to U.S. taxpayers, and

decisionmaking authority over State and local taxes will increasingly shift from the U.S. Supreme Court to 'dispute settlement bodies.'

"For these reasons, we have sought protection for all State and local tax practices that conform to Federal law or that are determined by the domestic courts of the United States to be nondiscriminatory under the Constitution.

"These arguments and concerns cannot be summarily dismissed, Mr. President. The problems are real and need to be resolved. I hope that today's discussion on the World Trade Organization will lead to a more thorough discussion as is outlined in the amendment offered by Senator THURMOND.

Free Trade and Federalism

"Mr. President, there is another document that I would like to have become part of the RECORD.

"I highly recommend it to my colleagues who support States rights.

"This testimony was delivered by Dan Bucks, the Executive Director of the Multistate Tax Commission, at the House Subcommittee on trade hearing last February. The title, interestingly, is 'Free Trade, Federalism and Tax Fairness.'

"I ask unanimous consent that his testimony before that subcommittee of the House be printed in the RECORD.

"There being no objection, the testimony was ordered to be printed in the RECORD, as follows:

FREE TRADE, FEDERALISM and TAX FAIRNESS

(Testimony by Dan R. Bucks)

"The Multistate Tax Commission is an interstate compact agency that works to ensure that multistate and multinational businesses pay a fair share – but not more than a fair share – of taxes to the states and localities in which they operate. We encourage states to adopt uniform tax laws and regulations in the interest of tax fairness as well as administrative ease and efficiency for businesses that operate in several states and nations.

"This testimony substantially draws on a larger report prepared by the staffs of both the Multistate Tax Commission and the Federation of Tax Administrators, the latter being the professional association of state tax officials. The Commission

appreciates and acknowledges the efforts of the Federation in helping to analyze the impact of international trade agreements on state taxation.

"The Commission views the General Agreement on Tariffs and Trade (GATT) and the General Agreement on Trade in Services (GATS) from this perspective of fundamental fairness and efficiency. States are committed to treating foreign taxpayers as well as they treat U.S. taxpayers who do business in their borders, and the Commission fully supports this principle of equal taxation. Equality of tax treatment provides a level playing field for the expansion of international trade.

Framers of U.S. Constitution Created the Most Successful Free Trade Area in the World

"The U.S. Constitution established a foundation for our nation based on the principles of free trade and federalism. It has created the most successful free trade area known in modern times and establishes the ideal pursued by other nations in international trade agreements. The Constitution also establishes a successful system of federalism. In a world where other nations are beset with social tension, and even civil war, over issues of balancing the aspirations of local communities with central governments, the U.S. system is a model for balancing local and national interests.

"Over the past two centuries, our nation has enhanced and developed an effective balance between free trade and federalism – a balance that flourishes today. However, GATT and GATS, which do not recognize principles of federalism and the sovereignty of state governments, threaten to destroy that balance. Thus, the Commission proposes measures that would restore, in the context of GATT and GATS, a proper balance between free trade and federalism and ensure tax fairness.

"The Constitution, as noted, guarantees that states and localities will treat foreign taxpayers equally as compared to domestic taxpayers. Unfortunately, without significant adjustment through the exemption and reservation process and implementing legislation, GATT and GATS will violate the principle of equality under the Constitution by granting rights and privileges in state and local taxation to foreign taxpayers that are not available to domestic taxpayers. Without adjustments, GATT and GATS will over the long-term:

"Reduce state and local taxes paid by foreign taxpayers and unfairly shift that tax burden to U.S. businesses and ordinary citizens.

Transfer of Sovereign Powers to International Trade Panels

"Transfer authority to determine state and local tax policy from the states, subject to the review of Congress and the U.S. Supreme Court, to international

trade panels with little or no expertise in state and local tax policy or constitutional law relating to federalism, and

"Erode the ability of states to perform their role as 'laboratories of democracy' in our system of federalism – fashioning local solutions to local problems.

"These problems will arise from the interaction of GATT and GATS with state and federal laws. The key features of this interaction are as follows:

"First, GATT and GATS establish special rules and appeal procedures that are available only to foreign taxpayers and that are more favorable than the rules and procedures available to U.S. taxpayers under state and federal law and the constitution. If a special class of taxpayers has access to rules and procedures that are more favorable to them than other taxpayers, those taxpayers will ultimately receive tax benefits at the expense of those less favored.

"Second, unless Congress enacts appropriate provisions of implementing legislation, rulings to international trade panels may be legally binding on state and local governments, even though they are not legally binding on the federal government. States are subject to the foreign commerce and national supremacy clauses of the constitution. Unless an international trade panel ruling is specifically rejected by the federal government, foreign parties may seek enforcement of that ruling.

"Third, states base many of their tax policies on either the federal tax laws or on mandates imposed by the federal government. The federal law may not conform to the trade agreements, and states may find their taxes vulnerable under the agreements simply because they are following federal law.

HOW GATT AND GATS FAVOR FOREIGN TAXPAYERS

"The special rights and privileges that taxpayers will enjoy under GATT and GATS arise from the broad and ambiguous terms used in the agreements and the 'dispute settlement mechanisms' established by the agreements. Specifically, the following features of the agreements create problems for state and local taxation.

"The agreements use broad language that is much less precise than tax law and create the potential for unpredictable, unintended and unfortunate decisions. For example, 'unjustified discrimination' is an ill-defined, ambiguous standard in the agreements, and the limited history of GATT authorities applying that standard to state taxation is disturbing.

"Foreign companies seeking to reduce their state or local tax bills would no longer be required to bring an action in the domestic courts of the U.S., but they could instead recruit their government to lodge a GATT complaint against the state or locality. 'Dispute Settlement Bodies' comprised of private sector persons from

other nations who are trade experts, but most likely have little or no tax or federalism experience, would rule on complaints by foreign nations against a state or local tax practice. The Dispute Settlement Bodies would not be bound by U.S. court precedents or any other body of law.

States Have No Standing Before WTO

"States have no guaranteed standing before Dispute Settlement Bodies. Absent Congressional action, states cannot be assured that their views will be presented or protected by the U.S. government at any time in the future. The federal government may defend the states' legitimate interests – or it may decline to, at its sole discretion.

"Because GATT and GATS, unlike the U.S. Constitution, do not recognize federalism, and more specifically the rights of state governments, which are otherwise constitutionally restricted from discriminating against foreign and interstate commerce, as a positive value, Dispute Settlement Bodies will be under no obligation to balance the claims of trading interests with subnational governmental rights.

"These features combine to create opportunities for tax benefits for foreign taxpayers that are more favorable than any U.S. taxpayer can attain. This fact is illustrated by the one case involving state taxes that has been subject to a dispute settlement ruling under GATT. This case is commonly referred to as Beer II and involved a Canadian-U.S. dispute over federal and state taxes and regulations affecting beer production and distribution.

THE UNFORTUNATE LESSONS OF BEER II

"A GATT panel issued a report on February 7, 1992, on Canada's challenge to federal and state laws affecting the beer industry. (This GATT panel decision is commonly referred to as 'Beer II.') The Beer II decision provides ample evidence that states are justified in fearing decisions that will likely flow from Dispute Settlement Bodies under GATT and GATS. Beer II ignores federalism entirely and fails to acknowledge the sovereign right of states in a federal system to establish different, but non-discriminatory, laws that reflect local conditions that do not necessarily pertain in all states. Finally, Beer II creates tax benefits in states for foreign breweries that no U.S. brewery could obtain in the U.S. court system.

"Specifically, there are at least three features of Beer II that are unacceptable to the U.S. constitutional framework of federalism. The three troubling features of Beer II are the panel's (i) employment of an arbitrarily broad notion of 'discrimination;' (ii) application of the 'least restrictive measure' standard to define the GATT obligation of 'national treatment;' and (iii) elevation of GATT above the U.S. Constitution.

Benefits for Foreign Taxpayers

"Overly Broad Concept of Discrimination Used to Benefit Foreign Taxpayers: The Beer II panel ruled against certain state tax laws that do not discriminate against either interstate or foreign commerce. In particular, Minnesota offers favorable excise tax treatment for microbrewery production that is conditioned only the size of the brewery and its completely neutral with respect to the national origin or location of the brewery, its product or its inputs. No microbrewery located in Canada is denied access to the favorable tax treatment. (The Minnesota law is distinguishable from some of the other state laws considered in beer II that condition favorable tax treatment on geographic location.) Yet, the Beer II panel was unwilling to make that distinction. Employing a 'beer is beer' standard, the panel swept the Minnesota-type laws into the scope of its disapproval. Under 'beer is beer' reasoning, no government would ever be able to make reasonable or rational distinctions between beer produced under different circumstances unrelated to geographic location. The 'beer is beer' standard negates the ability of states to make rational policy choices where there is no evidence of an intent to discriminate against foreign or interstate commerce or to promote local, economic protectionism.

Equality of Treatment Undermined

"Unless rejected by the federal government or otherwise resolved to the contrary, the original GATT ruling may well provide large Canadian brewers with a special tax benefit in at least one state that is unavailable to large American brewers. This ruling illustrates that GATT and GATS can undermine the equality of treatment between foreign and domestic taxpayers that is guaranteed under the U.S. Constitution. Unless adjusted, GATT and GATS tilt an otherwise level state and local tax playing field in favor of foreign business and against the interests of U.S. businesses and taxpayers.

"Classifying taxpayers on the basis of size is a common and acceptable practice that generally poses no problems of discrimination against commerce flowing across political boundaries (e.g., in federal law, S Corporations which may not have non-resident alien shareholders can be distinguished from C Corporations on the basis of number of shareholders). Under the U.S. Constitution, state laws like Minnesota's that classify brewers on the basis of size would most likely be upheld. Other state laws that condition favorable tax treatment on in-state location of the activity, inputs or product would most likely fail a constitutional test. The domestic courts of the U.S. would make careful, well-informed, well-reasoned and justified distinctions between these different types of tax laws. The Beer II panel did not.

Ignoring the Principles of Federalism

"Ignoring Federalism: Even more disturbing is the Beer II panel's use of a 'least restrictive measure' standard for defining national treatment in order to determine

whether discrimination exists. Using the least restrictive measure standard, the panel ruled against higher regulatory standards of some states on the basis that other states had lower standards. Some states impose requirements on the methods of distributing beer as an effective and efficient means of collecting excise taxes. Other states, however, do not impose the same requirements. The Beer II panel's ruling allowed no room for different requirements based on different circumstances confronted by various states, nor did the panel allow any room for differing judgments by separate sovereigns as to the most appropriate requirements to impose to effect collection of taxes.

"By imposing on all states the least restrictive measure standard among the states for assessing whether a neutrally structured and intended measure operates on a de facto basis to discriminate under the national treatment obligation of GATT, the Beer II panel struck at the very heart of federalism. The panel's reasoning leaves no room for different laws based on different local circumstances, nor for any range of judgment, regardless of the absence of any discriminatory intent in those judgments, to be exercised by different state sovereigns. Indeed, the combination of the least restrictive measure standard and the acceptance of de facto arguments leaves all state law potentially at risk of being subject to challenge under the aegis of GATT and GATS. Higher taxes levied by a state in which a company from one nation does business could be challenged as discriminatory simply because a competitor does business in another state with lower taxes. The following examples illustrate the potential problems created by the Beer II reasoning, if applied to state taxation:

"If Chilean wine is sold primarily in states with low wine taxes, while French wine is sold more often in states with higher wine taxes, the French firms could win a de facto MFN judgment for a GATT panel against states with higher wine taxes.

"If the gross receipts tax on a foreign-owned long distance telephone company is higher in the states in which it operates than the tax rates on American-owned long distance (or local) phone companies in other states, the foreign-owned company could win a de facto 'national treatment judgment' against the higher tax states.

Disruption of Property Rights

"If a foreign-owned bank pays higher property taxes in the one state in which it operates (for example, NY) than do banks, on average, in other states, it could win a national treatment judgment against the high tax state. (This result would potentially disrupt the billions in revenues realized from property taxation, a form of taxation that is covered by GATS. Property taxes are the primary source of support for education in the United States.)

"Since GATT/GATS, as drafted, does not recognize federalism and looks at 'discrimination' on a national basis, differences among states in tax treatment of similar economic activity could be used by foreign multinationals to win tax breaks from GATT/GATS panels using the 'least restrictive measure' reasoning of the Beer II panel. The obvious result of such rulings would be to destroy America's federal system. Each state would be barred by GATT/GATS panels from setting its own tax policy, settling instead to the lowest level of taxation by any state.

GATT to Overrule U.S. Constitution

"GATT Overrides the U.S. Constitution. The Beer II panel decision does not recognize governmental powers that are reserved to the States under the U.S. Constitution. The panel found in Beer II the States' alcohol regulatory practices, which could not be described intended to discriminate against foreign or interstate commerce or to promote economic protectionism, to violate GATT obligations. This violation was found even in the face of the central government's (federal government's) lack of power to require the States to change their alcohol regulatory practices that are reserved to the States under Twenty-First Amendment of the U.S. Constitution. In essence, the panel has used a congressionally approved international trade agreement to overrule the U.S. Constitution – something the U.S. Supreme Court cannot even do.

GATT/GATS RULINGS CAN BIND STATES, BUT NOT FEDERAL GOVERNMENT

"As suggested above, GATT and GATS generally will bind the states in ways that do not apply to the federal government. It is important to keep this difference in effect in mind because the federal government is simply not subject to the many restrictions applicable to the states and the perspective of the federal government is not, therefore, directly transferable to the states.

"GATT and GATS are a part of the foreign policy of the united States that, under the Constitution, is binding on the states. U.S. domestic courts entertaining state tax disputes will consider GATT and GATS rulings by the Dispute Settlement Bodies (and the other authorized decision-making agencies of these trade accords) as expressions approved under U.S. foreign policy unless there is a formal rejection of the rulings by the U.S. government. Thus, in any future classes involving state or local taxes in which the U.S. government does not expressly and firmly reject the GATT or GATS rulings, foreign parties will be able to take the trade ruling into U.S. domestic courts and argue persuasively that the state or local tax practice violates the U.S. Constitution by virtue of being inconsistent with the foreign policy of the U.S.

"This ability of foreign parties to seek enforcement of GATT or GATS rulings that may be adverse to a state taxing practice in the domestic courts of the U.S. makes the nature of the dispute settlement process of great concern. Trade panels –

closed to the states and comprised of non-U.S. citizens – will begin to play a role previously reserved to the U.S. Supreme Court precedents and constitutional language on the rights and obligations of subnational governments, but empowered instead to interpret broadly vague language, pose a clear and present danger to the U.S. system of federalism.

FEDERAL LAWS MAY CREATE GATT PROBLEMS FOR THE STATES

"States, especially in the income tax area, have frequently based their state tax treatment on federal law. The practice of 'piggybacking' on federal laws typically simplifies tax compliance and reduces costs for taxpayers and states alike. This practice generally supports the free flow of commerce and should not be discouraged by GATS or GATT. Accordingly, state laws based on federal law should not be subject to a separate challenge under these trade agreements.

"In addition, there are several state or local tax practices that are required by federal law. This category of state and local taxation should be similarly protected from the jurisdiction of the trade agreements, more because of the federal interests involved than the state interests.

"The following examples – which are not all inclusive – illustrate the category of laws involved in state taxing practices reflecting federal law:

"Tax exemptions for non-profit and U.S. Government enterprises.

"Protection of businesses engaged in interstate, but not foreign commerce, from state income taxation under Pub. L. 86-272, and

"Tax exemptions for U.S. and state government securities.

"These examples all involve activities that provide for favorable treatment of domestic activities. States are prohibited from taxing federal obligations, but they are allowed to tax foreign obligations. States use federal concepts of charitable, non-profit activities and similarly provide favorable tax treatment for charitable activities within their borders. They do not provide favorable tax treatment for charitable activities outside their borders or, following the federal law, for similar activities provided by for-profit entities. States are required by federal law to provide certain favorable treatment to businesses engaged in interstate commerce, but not those engaged in foreign commerce.

"States must comply with federal law and are often wise in using federal tax laws as a basis for their own laws. States should not get caught in a conflict between specific federal laws and general GATT requirements. The federal government should protect states from adverse GATT determinations that might arise from their use of or compliance with federal laws.

PROTECTING FREE TRADE, FEDERALISM AND TAX FAIRNESS

"The task at hand is to restore tax fairness and federalism to the framework of the world trade agreements. Unless this task is accomplished, foreign taxpayers will be able to reduce their state and local taxes unfairly at the expense of U.S. taxpayers. further, because taxation is at the core of sovereignty, the role of the states in our federal system will be undermined as authority over taxation shifts from state and federal officials to non-U.S. citizens serving on international trade panels.

"There is a ready solution to the need to restore tax fairness and federalism to the GATT and GATS framework. Currently, in the GATT negotiations, nations are developing exclusions from the GATT and GATS agreements. These exclusions involve Most Favored National Exemptions and National Treatment Reservations. The MFN Exemptions are to be resolved by April 15, and the National Treatment Reservations by June 15.

Exclusions from GATT and GATS

"We proposed to the Administration that they seek two types of exclusions from GATT and GATS as both MFN Exemptions and National Treatment Reservations. In developing the proposed exclusions, we seek to establish two broad principles that will restore tax fairness and federalism to the trade agreements:

"(1) The U.S. Constitution should be the basic standard for judging whether state and local taxes are fair and non-discriminatory as they apply to foreign commerce, and

"(2) States should not suffer the penalty of adverse GATT or GATS ruling because they comply with or base their taxes on federal laws.

"Using these principles, we have proposed to the Administration that they seek an MFN Exemption and a National Treatment Reservation that would exclude from the scope of the trade agreements any state or local tax measures that 'satisfy the requirements of the U.S. Constitution as determined by the domestic courts of the States and the United States.' further we have sought an MFN Exemption and a National Treatment Reservation that would exclude from the trade agreements state and local tax measures that 'substantially replicate, or discharge requirements or manifest the policy of the U.S. Internal Revenue Code or other applicable federal law.'

"These proposed exclusions from the trade agreements remain under discussion. We seek the support of Congress for these exclusions. If these exclusions are incorporated into the GATT and GATS framework, then there would likely be

little need to address state and local tax issues in the implementing legislation for GATT and GATS. However, if these exclusions are not adopted, we will return to Congress with extensive and detailed proposals for embodying to the degree possible not only the constitutional and statutory principles listed above, but also a third and fourth additional principles:

"(3) As is the case with the federal government, rulings under GATT and GATS should not be legally binding on state and local governments.

"(4) Federalism should be recognized as a positive value by allowing state governments, as sovereign entities, full and direct participation in GATT or GATS disputes involving state laws and by requiring that trade panels dealing with state and local tax issues should include tax officials from subcentral governments in federal systems.

"Incorporating these principles into the implementing legislation would require detailed provisions dealing with a host of matters including, as a sample, the following: i) a requirement that the U.S. Government use the Constitution for judging the acceptability of GATT rulings involving the state and local taxes, (ii) prohibitions on private rights of action by foreign parties seeking to enforce GATT rulings involving state and local taxes in the domestic courts of the United States, (iii) procedures for the direct participation of state governments in defending cases before GATT panels involving state or local taxes, (iv) requirements of nominees from other nations acceptable to the United States for serving on trade panels dealing with state and local tax matters, (v) consultation procedures between the federal government and state and local government when GATT cases begin to arise, (vi) procedures for determining whether and in what manner the U.S. accepts adverse GATT rules, and (vii) procedures for the U.S. government to pay compensation or other means that avoid unfunded mandates on state or local governments if adverse GATT rulings occur. There may be other subjects that should be considered in the implementing legislation as well. However, most if not all of these subjects need not be addressed if the U.S. secures the type of MFN Exemptions and National Treatment Reservations we have sought.

"The linchpin of our proposals is the Constitution. For that reason, it is necessary to understand why the Constitution works to ensure fundamental fairness in state and local taxation for foreign and domestic taxpayers alike.

HOW THE U.S. CONSTITUTION ENSURES TAX FAIRNESS

"The Interstate Commerce Clause, combined with the provisions of the U.S. Constitution, guarantees that state tax out-of-state parties in the same manner as they tax their own state residents. Further, the Foreign Commerce Clause requires that the states tax foreign parties in the same manner as they tax U.S. parties. Both clauses interact to achieve more effectively and precisely than GATT or GATS can guarantee essential equality in taxation for foreign and U.S. interests alike. Further,

the case law under these provisions is careful and well-developed and is not subject to the likely abuses under the ambiguous language and incomplete precedents of the trade agreements. Because of the effectiveness of the U.S. Constitution in guaranteeing equal and non-discriminatory taxation, the Constitution should be the basis for achieving the result sought by GATT and GATS: trade that is not restrained by discriminatory taxation.

"Because foreign companies are well protected by the Constitution against unlawful discrimination, local economic protectionism and undue burdens placed upon commerce, GATT/GATS should not limit or affect the tax methods by which states or other subnational governments raise revenue from business activities over which they have jurisdiction. During the past 200 years, the United States Supreme Court has consistently safeguarded interstate and foreign commerce from discrimination and undue burdens caused by unlawful state tax measures. Several provisions of the United States Constitution exist to address overreaching by the states when they seek to require interstate and foreign commerce to bear a 'fair share' of taxation. Those protections reside in Articles I, Section 8, Clause 3 (Interstate and Foreign Commerce Clauses), Section 10, Clause 2 (Import and Export Clause), VI (Supremacy Clause), and Amendment XIV, Section 1 (Due Process and Equal Protection Clauses) of the Constitution. This discussion is limited to an examination of the Commerce Clause protections extended by the Constitution which more than amply protects consistent with the standards of GATT and GATS domestic and foreign companies transacting business in foreign commerce.

Taxes on Foreign Commerce

"Under the Foreign Commerce Clause, states and their political subdivisions are only allowed to impose a tax obligation on business engaged in foreign commerce when the obligation:

- "1. Is applied to an activity with a substantial nexus with the taxing state;
- "2. Is fairly apportioned;
- "3. Does not discriminate against interstate commerce;
- "4. Is fairly related to the services provided by the taxing state;
- "5. Does not create a substantial risk of international tax multiplication; and
- "6. Does not prevent the Federal Government from speaking with one voice when regulating commercial relations with foreign governments.

"Unless each and every requirement listed above is fully met, the tax obligation will fail under the Foreign Commerce Clause and the taxpayer who might have

paid the tax will be entitled to meaningful relief. (See *McKesson Corp. v. Division of Alcoholic Beverages and Tobacco*, 496 U.S. 18 (1990)).

State Tax Issues

"Since the adoption of the Constitution, the United States Supreme Court and state courts have addressed scores of state tax issues and found many to violate the Interstate and Foreign Commerce Clauses. In the past ten years alone, the Supreme /court has issued several opinions declaring invalid against the Commerce Clause state tax measures that bore on interstate and foreign commerce. Representative examples of but a few of those cases are found in *Westinghouse Elec. Corp. v. Tully*, 459 U.S. 1144(1983); *Bacchus Imports, Ltd. v. Dias*, 468 U.S. 263 (1984); *New Energy Col. of Indiana v. Limbach*, 486 U.S. 269 (1988); *Kraft General Foods, Inc. v. U.S. Iowa Dept. of Revenue and Finance*, – U.S. – , 112 S. Ct. 2365 (1992). State courts also preserve the free flow of commerce. See *HL Farm Corp. v. Self*, 1994 WL 1927 (Tex.).

The U.S. Constitution Works Remarkably Well

"Our message is simple: the Constitution works, and has worked for over two centuries as an instrument of free trade, federalism and tax fairness. That is why we have made the standards and procedures of the Constitution the foundation of our proposals for exclusions of certain state and local tax measures from the scope of the GATT and GATS. That proposal, combined with a further provision protecting states when they act on or implement federal law, would effectively harmonize the trade agreements with our system of federalism. We ask for your support for the MFN Exemptions and National Treatment Reservations that we have proposed.

"Protecting the role of state and local governments in our nation is not an abstract or theoretical matter. The states have primary responsibility for meeting the domestic needs of the people of our nation. The states and their subdivisions maintain public order, educate future citizens and workers, maintain the essential infrastructure necessary for commerce and public life, and assist persons beset by misfortune or wrong choices to become productive members of society again. They do these tasks and more in a diversity of ways. That diversity is an important value of our federal system. States are laboratories of democracy and are a continuous source of innovation to meet a range of public needs. Endangering state tax sovereignty inevitably imperils the vitality and stability of our society.

Criticism of WTO from Foreign Entities

"Mr. CRAIG. Before closing, Mr. President, I would also like to mention that the WTO has not received accolades abroad.

"Articles in various papers and journals have outlined concerns that our trading partners have on the structure of the World Trade Organization and issues of sovereignty.

"Mr. President, after World War II, representatives from the United States and Great Britain designed a postwar economic system with three pillars: the World Bank, the International Monetary Fund, and the International Trade Organization [ITO].

A Threat to U.S. Sovereignty

"The ITO was intended to be the administrating body covering the General Agreement on Tariffs and Trade [GATT]. As I mentioned earlier, Mr. President, the U.S. Congress rejected the ITO as a threat to U.S. sovereignty.

"The Congress took that action despite warnings from beltway insiders that the failure to join this would certainly impede economic recovery for the entirety of the world.

"Our predecessors realized that the United States and our trading partners did not need a bureaucracy. What they needed was free trade. And, of course, this Senate rejected it. And yet we saw the world go on to prosper, as GATT itself and as we worked in a voluntary way to promote free trade around the world.

"Well, Mr. President, I hope that congressional wisdom will continue to prevail and that many of the questions I have spoken to today and others are speaking to about the World Trade Organization will be resolved 'to ensure our U.S. sovereignty and the very important question of States rights.

"It is clearly time that we listened to the underpinnings of this amendment and that we are willing to stop for just a moment and do an extensive examination, as the amendment calls for, some 90 days' worth of examination, and respond to our attorneys general and to our State tax commissioners and to our Governors, who are concerned, as we should be, about the issue of our sovereignty and about the issue of States rights." (*Congressional Record*, July 13, 1994, pp. S8852-S8858.)

Creation of a Powerful New International Organization

During his remarks on the new GATT Agreement, Senator Craig remarked that: "The World Trade Organization is not a minor change to the structure of the GATT. It creates an entity that is, to me, more than an international organization.

Rather, it is a regime with powers that are structurally stronger than those of the United Nations." (*Ibid.*)

Senator Craig also stated: "Our Nation's Founders, in framing the Constitution, and in the development of our Federal System, never intended that a State relinquish the development and enforcement of its tax policy to a foreign entity like the World Trade Organization." (*Ibid.*)

Businesses Which Favor WTO

Senator Patrick Moynihan from New York spoke in favor of the new GATT Agreement and stated that there "is an organization put together recently called Alliance for GATT Now.... The organization is headed by the chairman of Texas Instruments, Jerry Junkins...." (*Congressional Records*, July 13, 1994, p. S8866.) He then placed into the record the names of businesses throughout the U.S. who favored the new GATT proposal. These include

Abbott Laboratories	J.C. Penny
American Cyanamid Co.	J.R. Simplot Co.
American Express Co.	Johnson & Johnson
Amoco Corp.	KPMG Peat Morwick
AMR Corp.	Levi Strauss
ARCO	Marriott Corp.
Bankers Trust	Martin Marietta Corp.
Bechtel Group Inc.	McDonnell Douglas
Bethlehem Steel Corp.	McGraw Hill
BF Goodrich Co.	MCI
Black and Decker	McKesson Corp.
Boeing Co.	Merrill Lynch
Business Roundtable	Metropolitan Life Insurance Co.
Chase Manhattan Bank	Mobil Corp.

Chemical Banking Corp	J.P. Morgan & Co.
Chevron	Morrison Knudsen
CIGNA Corp.	Nations Bank
Citicorp/Citibank	Pennzoil
Coca-Cola	PepsiCo
ConAgra	Pfizer
CSX Crop.	Philip Morris
Delta Air Lines	Proctor & Gamble
Digital Equipment Corp.	Quaker Oats
Dow Chemical	Reader's Digest Assoc.
E. J. Dupont de Nemours & Co.	Sara Lee Corp.
Dunn-Bradstreet Corp.	Sears, Robuck k& Co.
Eastman Kodak	Shell Oil Co.
Eaton Corp.	Solomon Brothers
Exxon	Southern California Edison Co.
FMC Corp.	Texas Instruments
Gannett Co.	Times Mirror Co.
General Electric	TRW Inc.
General Mills	U.S. Chamber of Commerce
General Motors	UAL Corp.
Gillette Co.	United Technologies
Hewlett-Packard	Xerox Corp.
IBM Corp.	(<i>Congressional Record</i> , July 13, 1994, pp.
ITT Corp.	S8866-S8868.)

New Trade Proposal Advocated by U.S. Trade Representative

Even before the ink was dry on the new GATT Agreement, U.S. Trade Representative Mickey Kantor was busy preparing for a 'new trade review' among the leaders of G-7 – the advanced nations – to strengthen the WTO. According to the Associated Press, Kantor's new proposal is called 'Open Markets 2000'. (France, "U.S. Clash Anew on Trade at G7", Associated Press News Wire. *Congressional Record*, July 13, 1994, p. S8870.)

Apparently the new proposal is designed to increase liberalization of trade even beyond the Uruguay Round. The press report stated that Kantor was going to push his proposal at the Naples Summit meeting of the G7. Reportedly, "the U.S. proposal calls for trade ministers to report back their findings to next year's G7 summit in Canada.

"The study would be carried out in cooperation with the World Trade Organization, the successor to GATT due to be created next year [January 1, 1995], and the Paris-based Organization for Economic Cooperation and Development." (*Ibid.*)

WTO Is a Threat to U.S. Sovereignty

Senator Larry Pressler next spoke in favor of Senator Thurmond's amendment and voiced serious reservations about the viability and wisdom of the new GATT proposal as follows:

The New World Trade Organization – A Risk to Sovereignty and Powers of the Senate

"Mr. President, the Thurmond amendment deserves serious consideration by the Senate. 1 The amendment addresses major concerns about the new GATT agreement soon to be addressed by the Senate. The amendment is simple and straight-forward.

"First, it expresses the sense of the Senate that a joint Senate-administration commission be convened to decide whether the proposed World Trade Organization should be considered as a treaty and not as an Executive agreement.

"Second, the amendment calls for a period of time, prior to introduction of the implementing legislation, for further congressional hearings, both in and outside of Washington to consider the full ramifications of the United States joining the World Trade Organization.

"The process being taken by the administration has brought a new meaning to the phrase 'fast-track.' Fast-track authority permits implementing legislation to be considered and voted on without amendment. This should not mean pushing through legislation without full and deliberate consideration.

New Trade Agreement Signed by U.S. on April 15, 1994

"The new trade agreement is a massive document. It was just signed on April 15 of this year. The Finance Committee will begin its trial markup of implementing legislation next week. I understand that the committee hopes to conclude its consideration by the end of next week.

"One thing is certain. We can learn from history. History has taught us that free trade brings stronger economic growth. I am a free trader.

U.S. Senate Rejects the International Trade Organization in 1947

"The last time this body considered GATT was in 1947, when it was created. At that time, the World Bank and the International Monetary Fund were created to address international developmental and monetary problems. An International Trade Organization [ITO] was proposed to regulate trade relations among countries. However, the ITO encountered opposition in the Senate. The issue? Sovereignty. As a result, the proposed ITO failed to win enough votes for ratification.

"As CBO reported in 1987, 'As a weak substitute for the envisioned ITO, a GATT Secretariat, with a very small staff, was created to oversee the General Agreement and to manage multilateral trade negotiations.'

"Well, the ITO proposal has resurfaced. It is now called the WTO. The new GATT agreement creates a new World Trade Organization that differs from the old GATT. The WTO is not a weak version of the ITO, but a new version of it.

"Under the old GATT, the United States had a veto. We could block a panel decision and we would not face retaliation. Under the WTO, the process is automatic. Panels are established, decisions are made and the United States has no veto.

Risks to U.S. Sovereignty

"Mr. President, the risks that the WTO pose to sovereignty and to the constitutional role of the Senate are real. These risks must be fully addressed. That is why my colleagues and I felt it was important to offer this amendment today. Time is running out.

"The full consequences of this agreement are just beginning to come to light. Recently, I have raised concerns over the proposed World Trade Organization [WTO] created under the new agreement. I have addressed these concerns on the floor and at two hearings held by the Foreign Relations Committee and the Commerce Committee.

"Many questions and concerns about the WTO are being raised. Unfortunately, there appear to be more questions than answers.

"For example, what impact will this organization have on Federal, State and local laws? What will be its budget? How many taxpayer dollars will be spent on the WTO? To whom will the WTO, with its unelected bureaucrats, answer? I do not think these questions have been answered adequately.

"Another concern is whether or not the creation of the WTO should be considered as a treaty. There is a possibility the new WTO could threaten the constitutional role of the U.S. Senate.

"I am not certain the WTO could be fixed. If submitted as part of the implementing legislation, it would not be subject to amendment. The best option may be to drop the proposed WTO from the implementing legislation and deal with it separately. This option needs careful consideration.

WTO Should Be Considered As a Treaty

"Mr. President, before I discuss the issue of sovereignty, let me explain why I believe the WTO should be considered by the Senate as a treaty – not as an executive agreement.

"There are four ways an international agreement can become the law of the United States.

"First, if it is accompanied by the advice and consent of the Senate – a treaty;

"Second, if it is authorized or approved by Congress and the matter falls with the constitutional authority of Congress – a congressional-executive agreement;

"Third, if it is authorized by a prior treaty which received the advice and consent of the Senate – an executive agreement pursuant to treaty; or

"Fourth, it is based on the President's own constitutional authority – a sole executive agreement.

"It is clear that past GATT agreements fall under No. 2 – congressional-executive agreements. These agreements call for lowering tariffs and quotas, and

expanding trade. However, I question whether Congress intended or authorized the creation of the WTO.

International Law and Treaties

"Under international law, an international agreement is generally considered to be a treaty and binding on the parties if it meets four criteria:

"First, the parties intend the agreement to be legally binding and the agreement is subject to international law;

"Second, the agreement deals with significant matters;

"Third, the agreement clearly and specifically describes the legal obligations of the parties; and

"Fourth, the form indicates an intention to conclude a treaty, although the substance of the agreement rather than the form is the governing factor.

"Mr. President, international agreements and treaties have been used interchangeably in recent years. I do not question that the trade agreements under the Uruguay round should be treated as agreements. However, the creation of the WTO is a different matter.

Debate Over International Trade Organization

"Let's look at Senate precedents. In 1947, the Senate Finance Committee debated this issue when considering the International Trade Organizations [ITO]. At that time, the chairman of the Foreign Relations Committee was Senator Eugene D. Millikin. He suggested the following test for determining whether a treaty should be submitted to the Senate for two-thirds approval:

"The proper distinction is that when we go beyond conventional matters (duties, custom matters and foreign trade), and commerce to surrender sovereignty, this is the point where the proper field of treaty comes in. Whenever you come to a matter where there is substantial disparagement of our sovereignty, whenever you come to a matter where sanctions may be invoked against the United States, by an international body, then you have probably entered the legitimate field for treaties.'

"I warn my colleagues. The vote on the GATT implementing legislation, which creates the WTO, is expected to be considered by the Senate as an Executive agreement. Passage will only require a simple majority.

WTO Provisions Added in Final Negotiations over GATT

"I believe it is abundantly clear. The creation of the World Trade Organization was not anticipated when the Uruguay round negotiations began. It has been reported that the proposed WTO was pushed through in the eleventh hour of the negotiations.

"Whether or not the United States joins the WTO should be considered apart from legislation implementing the final texts of the GATT Uruguay Round Agreements.

"Mr. President, proponents of the WTO will argue that there is no difference between the existing GATT structure and the WTO. Proponents will argue that the WTO will not be able to coerce the United States into any decisions on trade matters. They will argue that there's little or no difference between trade dispute settlements under the current GATT agreement and the WTO. It's sort of like shopping for a used car. You hear all the great things about the WTO, but little about its flaws. I am not quite ready to buy all the arguments in favor of the WTO.

"United States negotiations in the Uruguay round improved the GATT by including goods and services and reducing nontariff trade barriers. For the first time agriculture is included under the agreement. Proponents of the WTO will say the new organization is needed to ensure that these grains are not lost in dispute settlements.

"Mr. President, I hear those arguments. What I do not hear is that the United States intended to create and promote the creation of the WTO.

"All too often issues are rushed through this body without full consideration. It is these 11th hour deals that all too often us into trouble. I fear that is what is happening with the WTO." (*Congressional Records*, July 13, 1994, pp. S8871-S8872.)

Congress Given Power over Foreign Commerce

Senator Robert Byrd outlined his objection to the GATT proposal as follows:

"Mr. President, I rise in support of the policy expressed in the amendment by the distinguished Senator from the South Carolina [Mr. THURMOND]. It is an issue about which I feel rather strongly, but I also sympathize with the distinguished manager of the bill, Mr. LEAHY, and his sentiments that this is not the right place for the amendment. The foreign aid bill is not the place to debate trade policy, and it is difficult enough for us to consider this annual legislation without major debates on extraneous matters.

"I understand that the distinguished Senator from South Carolina will withdraw his amendment shortly. He has not said so, but I understand he will. And I think, all concerns considered, that would probably be the best thing. I hope that he will.

"But the amendment is nevertheless before the body now, and I strongly support it. 1 The Constitution reserves powers over international economic matters exclusively to the Congress. This is not a shared power with the executive branch. Article I, section 8 says that the Congress shall have the power to regulate commerce with foreign nations.

Use of Executive Agreements to Bypass Treaty Provisions of the U.S. Constitution

"In recent years, there have been attempts to tippy-toe around this constitutional provision by using a mechanism allowing the executive branch to seek legislative authority from Congress to negotiate trade agreements with other nations that it structures as executive agreements. The executive branch then receives an additional advantage through procedures included in the authorizing legislation known as 'fast track.' This is a device which denies the Congress the opportunity to amend the agreement, and then forces the Congress to vote up or down within a limited time period. We do not even have the luxury of amending the agreement, which in the case of a treaty we would be able to amend.

GATT Agreements Should Be a Treaty

"First, I agree that the weight of the agreement reached in the case of the Uruguay round is such that it rises to the importance of a treaty and should be treated as a treaty.

"Second, the long-term implications of the Uruguay round are such that the Senate should have full and unrestricted debate – unrestricted debate – with the opportunity for the Senate to work its will in this most vital arena of foreign policy, the economic relations we have with the rest of the world. The fact is that there should be no rush to pass legislation implementing this agreement this year. We need time to discuss it at length.

"The Congress could wait until next year, next spring, after a full investigation of the ramifications of this agreement. In any case, implementing legislation is not needed until July of next year.

"The Senator from South Carolina states in his amendment that the implementing legislation did not address the question of establishing a supernational adjudicatory mechanism which was incorporated in the Uruguay round of the World Trade Organization. The mechanism could make decisions which could profoundly, profoundly affect U.S. domestic law.

GATT Agreement Should Not Be Pushed through Congress

"Considerable investigation needs to be done on this matter by this body. There are many other concerns which Members in both Houses have raised in respect to this extensive and far-reaching agreement. So let us not rush it. I think the agreement should be considered as a treaty. In any event, it should be amendable. That may be inconvenient for the other signatories to the treaty but American national interests are at stake. This is a massive trade document and has not been scrutinized by the Senate in any meaningful manner.

"Therefore, I support the amendment of the Senator from South Carolina. I appreciate his offering it. I congratulate him on offering the amendment. I am glad to have an opportunity to say these few words in support of the amendment.

"I hope, now that we have had an opportunity to speak at least briefly on the subject, the Senator will withdraw the amendment as it is a sense-of-the-Senate amendment and it is attached to an appropriations bill... (*Congressional Record*, July 13, 1994, p. S8872.)

Senator Thurmond withdrew his amendment, however, the debate was just beginning.

Harvard Law Professor Points Out that the GATT Agreement Should Be a Treaty

Lawrence Tribe, a prominent law professor from Harvard submitted the following letter to Senator Byrd:

HARVARD UNIVERSITY LAW SCHOOL,

Cambridge, MA, July 19, 1994.

HON. ROBERT BYRD,

U.S. Senate,

Washington, DC

"DEAR SENATOR BYRD:

I write to express my concern that, in the rush to achieve a major advance in the regime of international trade, some proponents of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) appear to be ignoring vital constitutional safeguards for the role of the Senate as a deliberative body, and for

the sovereign authority of the fifty States as semi-autonomous entities within the Federal System.

"As I understand the GATT implementing legislation, which would become federal law once approved as a fast-track executive agreement by simple majorities in the House and Senate, the resulting legal regime would entail a significant shift of sovereignty from state and local governments to the proposed World Trade Organization (WTO), in which the interests of these entities would be represented exclusively by the U.S. Trade Representative (USTR). Having read the December 15, 1993, version of the Final Act Embodying the Results of the Uruguay Round, and having examined the letter of July 6, 1994, sent by some forty-two state attorneys general and the attorney general of Puerto Rico to President Clinton, I do not pretend to have mastered all of the details of how the new trade system would work. However, I share a number of the concerns expressed by the attorneys general and, more importantly, I see no way to avoid the conclusion that the legal regime put in place by the Uruguay Round represents a structural rearrangement of state-federal relations of the sort that requires ratification by two thirds of the Senate as a Treaty.

Treaties and Executive Agreements Are Very Different

"As I wrote in the 1988 edition of my treatise, *American Constitutional Law*, '[t]hat the power to conclude executive agreements coincides perfectly with the treaty power seems untenable, since such a conclusion would emasculate the Senatorial check on executive discretion that the Framers so carefully embodied in the Constitution.' (pg. 229.) To be sure, what is proposed in this instance is not simply an executive agreement but an agreement that is to be implemented by congressional legislation. Thus my problem is not with any circumvention of Article I, under which Congress is empowered to regulate foreign commerce, but with the circumvention of Article II, Section 2, Clause 2, under which the power to make Treaties is expressly conditioned on the proviso that 'two thirds of the Senators present concur.'

States Are Represented Through U.S. Senate

"Even after the Seventeenth Amendment was ratified in 1913, making the Senate a popularly elected body rather than a body composed of individuals chosen by the State Legislatures, the Senate remains the principal body in which the States are represented in our National Government. Article V continues to provide but one exception to the general proposition that the Constitution may be amended whenever proposed changes are ratified by three fourths of the fifty States: 'no State, without its Consent, shall be deprived of its equal Suffrage in the Senate.' That singular exception be-speaks the enormous structural significance of the Senate as a forum for protecting the rights and interests of the several States and their local subdivisions.

A Significant Restructuring of the Power Alignment Between Federal Government and States Requires a Treaty

"Thus if there is any category of international agreement or accord that must surely be submitted to the Senate for approval under the unusually rigorous two-thirds rule of the Treaty clause, that category must include agreements like the Uruguay Round, which represents not merely a traditional trade agreement but a significant restructure of the power alignment as between the National Government and the States.

Structural Safeguards of Constitution Must Not Be Ignored

"I am, of course, aware that we have, as a Nation, fallen into an almost habitual pattern of regarding trade agreements as proper subjects for enactment through the concurrence of the President and a majority of both Houses of Congress. by and large, that pattern has served us well – and, in most instances, it may be fully consistent with the letter and spirit of the Constitution. But it is hard to imagine what kind of agreement must be regarded as a Treaty, and subjected to state ratification as such through the Senate, if the Uruguay round is not to be so regarded. However inconvenient,, the structural safeguards of the Constitution must not be ignored.

The Issue Is Fidelity to the Constitution

"As you may recall, I was a strong supporter of the North American Free Trade Agreement (NAFTA) and testified in the Senate that the federal courts cannot constitutionally compel the USTR, when submitting the NAFTA for consideration by Congress, to accompany that instrument with an environmental impact statement, even assuming such a procedure to have been mandated by Congress in the National Environmental Policy Act (NEPA). On that occasion, while I was most sympathetic with the environmental concerns of those who sought judicial compulsion to obtain an environmental impact statement, I was unwilling to sacrifice basic separation-of-powers principles to achieve environmental aims.

"So too here. For while I am likewise a strong supporter of the free trade principles of the Uruguay Round and would be sad to see those principles receive a setback in the Senate, the issue is not one of policy preference; it is one of fidelity to the Constitution. As such, I thought it important to share with you, and with your colleagues, my very grave misgivings about how the Clinton Administration appears to be proceeding with this matter insofar as the role of the Senate is concerned.

Sincerely,

LAURENCE H. TRIBE.

(*Congressional Record*, August 4, 1994, pp. S10584-S10585.)

U.S. Justice Department Responds to Tribe Letter

Professor Tribe's letter to Senator Byrd was dated July 19, 1994. On July 29, 1994, Walter Dellinger, the Assistant Attorney General, Office of Legal Counsel, in the Department of Justice, released his memorandum of law on the treaty versus executive agreement debate. The document stated:

"This is to provide you with the views of the Office of Legal Council on the question whether the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) requires approval as a treaty by a two-thirds vote of the Senate. In our opinion, the Uruguay Round may constitutionally be adopted in the manner in which trade agreements of this kind are ordinarily approved – that is, by passage of implementing legislation by simple majorities of both Houses of Congress, together with signing by the President.

"In a recent letter to Senator Robert Byrd, Professor Laurence H. Tribe took the position that "if there is any category of international agreement or accord that must surely be submitted to the Senate for approval under the unusually rigorous two-thirds rule of the Treaty Clause [U.S. Const., Art. II, Sec. 2, Cl. 2], that category must include agreements like the Uruguay Round, which represents not merely a traditional trade agreement but a significant restructuring of the power alignment as between the National Government and the States." See "Leading Scholar Says Uruguay Round Must Be Ratified As Treaty," *Inside U.S. Trade* at 1-2 (July 22, 1994) (Tribe Letter). Professor Tribe contends that the legal regime that would ensue from the enactment of the GATT implementing legislation "would entail a significant shift of sovereignty from state and local governments to the proposed World Trade Organization (WTO), in which the interest of these entities would be represented exclusively by the U.S. Trade Representative." *Id.* at 1. Professor Tribe concludes that "the legal regime put in place by the Uruguay Round represents a structural rearrangement of state-federal relations of the sort that requires ratification by two thirds of the Senate as a Treaty." *Id.*

Every Trade Agreement Imposes Obligations on States

"We disagree. As this Office pointed out nearly forty years ago when first considering the constitutional issues posed by the GATT, "it has been a well established principle of our constitutional law that the Congress, as distinguished from the Senate alone, may direct and participate in the making or implementation of certain international agreements." Memorandum for the Attorney General J. Lee Rankin, Assistant Attorney General, Office of Legal Counsel, re: Constitutional Aspects of the General Agreement on Tariffs and Trade 24 (November 19, 1954) (Rankin Memo). In particular, Congress has frequently enacted major international

trade agreements that apply to the States, including agreements that raise the possibility that State law might be challenged as inconsistent with our international obligations. "Every recent trade agreement entered into by the U.S. has imposed obligations on the states. This includes the Tokyo Round (1979), the U.S. -Canada Free Trade Agreement (1988) (CFTA) and the North American Free Trade Agreement (1993) (NAFTA)... [U]nder NAFTA, the states assumed the obligations of the trade agreement, including the possibility that a state law could be challenged, as inconsistent with U.S. obligations, in dispute settlement proceeding[s] brought by Canada or Mexico." Memorandum to Walter Dellinger, Assistant Attorney General, Office of Legal Counsel, from Ira Shapiro, General Counsel, United States Trade Representative, at 1 (July 24, 1994) (Shapiro Memo). See also *The Constitution of the United States of America: Analysis and Interpretation*, S. Doc. No. 16, 99th Cong., 1st Sess. 523 (1987) ("the most copious source of executive agreements has been legislation which provided authorization for the entering into of reciprocal trade agreements with other nations"); *Restatement (Third) of the Foreign Relations Law of the United States* Sec. 303(2) (1987) ("The President, with the authorization or approval of Congress, may make any international agreement dealing with any matter that falls within the powers of Congress and of the President under the Constitution.").

Constitution Recognizes International Agreements Other Than Treaties

"The Constitution itself recognizes the possibility of international agreements other than "treaties" in the sense of Art. II, Sec. 2, Cl. 2. In limiting the powers of the states, it provides that "[n]o State shall, without the consent of Congress...enter into any Agreement or Compact...with a foreign Power..." U.S. Const., Art. I, Sec. 10, Cl. 1, 3. Thus, while a state may not enter into a "Treaty" with a foreign power, it may (with Congress's approval) enter into an "Agreement or Compact" with one. "Unless, therefore, the position is taken that the Federal Government does not have the power to use techniques of agreement made available to the states...the conclusion is inescapable that the Federal Government was intended to have the power to make 'Agreements' or 'Compacts.'" Rankin Memo at 26. Accordingly, from the beginning of the "Republic to the present, Presidents and Congresses have elected enter into international agreements in preference to formal treaties. The State Department advises us that from January 1, 1946, to December 31, 1993, the United States concluded 732 "treaties" (in the sense of Article 2, Sec. 2, Cl. 2) and 12,968 other international agreements, the overwhelming majority of which were based at least in part on Congressional legislation, principally legislation delegating to the President the authority to conclude international agreements." (*Congressional Record*, August 4, 1994, pp. S10587-S10588.)

Tremendous Increase in Treaties and Executive Agreements Since 1946

It is interesting to note that Dellinger quotes a memorandum from Ira Shapiro admitting that: "Every recent trade agreement entered into by the U.S. has imposed obligations on the States. This includes the Tokyo Round (1979), the U.S.-Canada Free Trade Agreement (1988) (CFTA) and the North American Free Trade Agreement (1993) (NAFTA)... [U]nder NAFTA, the States assumed the possibility that a state law could be challenged, as inconsistent with U.S. obligations, in dispute settlement proceeding[s] brought by Canada or Mexico" (*Ibid.*)

"In light of the "732 treaties" and "12,968 other international agreements,' it is obvious that the legal, economic and political sovereignty of America has been greatly diminished since 1946.

WTO Will Pressure U.S. To Change Its Laws

Concerning the GATT Agreement, Senator Strom Thurmond stated:

"Mr. President... I have serious concerns over the World Trade Organization, known as the WTO and the effect that it will have on the sovereignty of our Nation.

"The WTO will be the arbitrator of trade disputes between signatory countries. While the WTO will not have the authority to change our laws, it will be able to pressure the United States enough to make us change our laws. The decisions handed down by the WTO will be voted on by the member countries. Each country gets one vote and, except in some cases, a majority vote rules. While the WTO has been described as a United Nations of trade, the U.S. will not have veto power over WTO decisions. All decisions are final.

U.S. Options in a Trade Dispute

"The U.S. will have four choices of action if the WTO rules against our country. We can either: First, leave the WTO, Second, pay tariff penalties to other countries, Third, not enforce our domestic laws, or fourth, change our laws to comply with the WTO ruling. Most of the Federal, State and local laws that would be contested have been enacted to protect the rights, safety, and health of our workers and the environment of our country.

"One argument used to justify the WTO is that other countries would not impose harsh penalties against the U.S. since we have such a lucrative marketplace. However, I do not think any of us can really be sure how the

developing nations of the world, which account for 83 percent of the WTO membership, will vote when a situation arises.

"I want to repeat that – how the developing nations of the world, which account for 83 percent of the WTO membership, will vote with when a situation arises.

Misleading Arguments about WTO

"Mr. President, those of us who were serving the Senate during some of the previous GATT rounds have heard many of the same arguments that the Clinton Administration is making with regard to this agreement. In fact, the claims regarding the Uruguay round are strikingly familiar to those made by the Carter Administration at the close of the Tokyo round talks in the late 1970's. At that time, we were told that bold new steps, such as those incorporated into the Tokyo round, were needed to eliminate our trade deficit and to make America more competitive in the global marketplace. Yet, Mr. President, the exact opposite happened. I repeat. The exact opposite happened. After MP of the Tokyo round, the United States trade deficit grew from \$14 billion in 1979 to over \$115 billion in 1993. Further, we saw a major decline in the steel, textile, apparel, and electronics industries. During this same time, these industries were struggling to survive due in part to the closed markets of other countries.

U.S. to Possess Only One Vote

"Mr. President, I think this amendment is a good amendment, and I hope my colleagues will see fit to support it.

"Now, this amendment provides under the findings after paragraph 3 that in the World Trade Organization the United States will have only 1 out of 117 votes. I want the Senate to hear that. It will have only 1 out of 117 votes and will lose the veto power it had in the GATT organization that the World Trade Organization replaces.

"Mr. President, it also provides in paragraph 4 under the GATT treaty, the United States will pay 20 percent – I repeat, 20 percent, of the burden of the World Trade Organization. We will have less than 1 percent of the voting power. We will pay 20 percent of the burden and have 1 percent of the voting power.

WTO to Override U.S. Law

"The World Trade Organization has a potential of overriding U.S. law. Do we want that to be the case? Do we want the World Trade organization to override domestic law? Mr. President, that is what it will do. Why should we relinquish that power to any World Trade Organization, or any other organization to override our laws?

"Now, under the Constitution we have a right to make treaties. Why not let the President submit this as a treaty and let the Senate consider it? We think that is the right way to do it.

"I also wish to remind the Senate that under the fast-track rules, Senators are prohibited from amending the agreement and debate is limited to 20 hours on the floor. We will not have the opportunity to make an amendment under the fast-track. You vote for it or you vote against it.

"And we think that is a mistake to pass this under the fast-track rule. We think it is a great mistake and, therefore, we feel that this WTO organization which has 117 members can pass a law that will override the laws of the United States and we do not even have a veto. I repeat, and Senators better wake up here and see what they are doing. We pass a law that will override the laws of this country and do not even give us a veto. Are we not foolish to do such a thing? I repeat. This is a dangerous situation..." (*Congressional Record*, August 4, 1994, p. S10590.)

A Powerful New International Institution That Will Impact Our Sovereign Powers

Upon the conclusion of Senator Thurmond's remarks, Senator Robert Byrd stated:

"Mr. President... The agreement that has been negotiated by the executive branch is far-reaching in its scope and establishes a powerful new international institution which impacts on our Nation's economy, its laws, and, indeed its sovereign powers. It impacts on this institution also. I have grave institutional concerns in regard to this matter. It needs the full attention of every Senator and ought to be debated at length.

"The World Trade Organization, which is established by this international agreement, apparently has the potential power to affect U.S. laws. Will this organization, which would include the United States as a member with 1 vote among 117 countries, be able to overturn U.S. laws, environmental laws, fuel efficiency regulations, and many other laws? that is the accusation made by the growing number of critics of this agreement. Senators need to fully understand the implications of the mandate being given to this new organization.

"The cost of the agreement will be very large. The Congressional Budget Office puts the cost at \$40 billion over 10 years, and \$10 billion over the first 5 years because of lost tariff revenues. So there is a very significant negative economic impact, certainly in the first decade.

"This body, under the fast-track procedures – which I voted against – will have no ability to amend the agreement. It rolls through here with a maximum of 20 hours of debate on the Senate floor.

WTO Agreement Poses Serious Questions

"There are serious economic, institutional, trade, and constitutional issues at stake here. Most Senators, I believe, have not had the opportunity to examine the details and the implications of the agreement.

"Some Senators have raised the question as to why it should be considered in the form of a treaty, rather than an executive agreement. It binds the nation internationally in a way that has many serious implications for our Nation, and in matters of this weight the Framers intended that a higher standard, super-majority was needed.

U.S. Should Postpone Rushing GATT Through Congress

"Why should this body rush into approving this agreement this year? I hope that the administration will not send up the agreement this year. Congress can wait, and I think it ought to wait, until next year, next spring, after a full investigation of the ramification of this agreement. In any case, implementing legislation is not needed until July of next year. Most other nations, I understand, have not approved this agreement. I understand that many other nations are treating this agreement as a treaty in their constitutional processes. I wonder how many of them have these 'fast-track' procedures.

"The Senator from North Carolina is rightly concerned over the way this body is being forced to handle the agreement. We are being forced to handle it partly through our own fault, too, may I say to my friend. I agree with him. However, I do think that most Senators should not be forced to vote on his amendment at this time because they do not now have sufficient information to make a judgment on the matter. I do not have sufficient information to make a judgment on this matter, and I am sure there are others in my same predicament. It will take further study, serious study and reflection on their part to make a decision on whether to support the GATT agreement.

"So I respectfully suggest to the Senator that he withdraw his amendment at this time and that the Members of this body make a major effort over the next weeks and months to understand the implications of their vote.

"I am concerned that if we have a vote today, it will certainly have the effect of locking some Senators in on their vote, Senators who may not have had an opportunity to study the implications. Others have studied it and they have made a decision. I respect their decision, those who disagree with me on it. But, as one Senator, I certainly have not had the opportunity.

"I will vote with the Senator, if he persists in going through with the vote, but I hope and respectfully urge that he will not press this to a vote today and that he will withdraw his amendment.

"He made a good statement. Others have made statements on it. I respectfully recommend that he not pursue the matter further and that he withdraw the amendment.... (*Congressional Record*, August 4, 1994, pp. S10590-S10591.)

Opposition to GATT On Capitol Hill

The *Congressional Quarterly* reported that:

"When the president sent the GATT implementing bill to congress on Sept. 27, [1994] it was originally thought that the agreement would easily prevail. The free-trade position has had majority support in recent Congresses. Also, the campaign against GATT had been nowhere near as vitriolic as that which unsuccessfully challenged the North American Free Trade Agreement, enacted in November 1993.

"However, the president's submission of the bill just before the planned early October congressional adjournment gave GATT critics an opportunity for delay. The bill is being considered under 'fast-track' rules for trade legislation, which bar congressional amendments but also allow committee chairmen 45 days to review the bill. Senate Commerce Committee Chairman Ernest F. Hollings, D-S.C., a staunch GATT opponent, took advantage of that rule, scheduling a series of nine hearings over his allotted 45 days. (*Weekly Report*, p. 2761.)

"Hollings' action forced the Senate leadership to schedule a brief lame-duck session to deal with the GATT bill. With the Senate delaying action, House members also decided to put off the GATT vote until after the Nov. 8 midterm elections.

"The House will reconvene Nov. 29 for four hours of debate followed by a vote on HR 5110. The Senate is scheduled to debate the bill for 12 hours on Nov. 30 and for eight hours on Dec. 1, ending with a vote that day. (*Congressional Quarterly*, November 26, 1994, p. 3410.)

November Election Shocks the Liberals in Washington

While the congressional candidates went home to campaign after the October recess, the proponents of GATT developed steam as more and more pressure was put on members of Congress to pass the GATT Agreement before the new Congress convened in January.

On November 4, 1994, the American people sent a message to Washington, D.C. that sent shock waves through the political establishment. A tidal wave of Republican victories swept across America and key Democrats were retired one after another. The Republican Party regained control of the U.S. Senate and the

U.S. House of Representatives. Senator Bob Dole became Majority Leader and Congressman Newt Gingrich became Speaker of the House.

Key Republican Leaders Ignore Public Opposition to GATT and Endorse It

The Republican Party could have defeated the GATT Agreement and given the Clinton Administration a serious foreign policy defeat and set him up for a big fall in 1996, however, key Republican leaders stunned people throughout the nation as they embraced the GATT Agreement. Senator Dole and Speaker Gingrich must take the blame for the passage of GATT during the lame-duck session.

Debate in the U.S. House of Representatives Over GATT Agreement

Let us now turn our attention to the U.S. House of Representatives and examine the debate over adoption of the implementing legislation for the GATT Agreement. House Resolution 5110 – the Uruguay Round Agreements Act, was introduced on November 29, 1994. Under the rules of the House, there was four hours of debate on the most important trade legislation in the history of America. The leading opponents of the GATT Agreement were Congresswoman Marcy Kaptur, D-Ohio, and Congressman Duncan Hunter, R-California. The following section will contain highlights of the debate Congresswoman Kaptur stated:

"Mr. Chairman, my colleagues, today I rise in strong opposition to GATT.

"Let me say to my colleagues on the right of the political spectrum, over a period of generations you have tended to perpetuate the illusion that rugged individualism and market forces alone can solve the declining buying power of the majority of America's families. Let me remind you most people born in America are born with their entire net worth ahead of them, not a silver spoon in their mouths. A good-paying job is their only ticket up the ladder of economic opportunity.

Loss of U.S. Jobs

"So when U.S.-based Nike Shoe co. decided to move all of its products to Asia or when Dole Pineapple decide to move out of Hawaii, I do not care how hard you might have worked as a shoemaker or a pineapple worker, your job disappeared, and your family and your world were devastated. To hold out a low minimum-wage job with no benefits as a viable alternative to Americans who have lost their jobs because of our trade policies is hypocrisy.

"To my colleagues on the left of the political spectrum who believe that the Government produces wealth, let me caution you that the role of the Federal Government should not be primarily redistributive; rather, the role of the Government must be to set the terms of the negotiation between the rights of corporations and capital and the rights of labor.

U.S. Congress Has Abdicated Its Role over Foreign Commerce

"For too long, the Government of the United States and this congress have abdicated their rightful responsibility to set the terms of the trade negotiations and have ceded it to the executive branch, the multinational corporations, and their well-paid trade lawyers here in Washington and in Geneva.

"To supporters of the GATT on the right and on the left, you are both wrong. You have turned your backs again on the American people themselves.

"The workers of America are restless. It is they who have borne the impact of the misguided trade agreements our Nation has struck for the past two decades. This is not the first GATT. This is the eighth GATT. And after each of the past GATT agreements, as corporate profits have gone up and consumer prices have gone up in America, real wages for America's workers have gone down, and the buying power of our working families have not gone up. Workers are holding their own, and our families are holding their own only by taking two jobs or more, and at the same time more imports have flowed to America's shores at a much faster rate than our exports going out.

A Correlation Between Declining Living Standards and Massive Trade Deficits

"It is not difficult; you do not have to be a mental giant to figure out that there is a correlation between declining living standards in this country and the massive trade deficits we are racking up as a country. This year America will face her 11th consecutive year of negative trade deficits. This year it is projected to be at an all-time high of over \$150 billion more imports coming in here than are exports going out.

"It is no secret our economy has not grown fast enough for two decades to meet our people's rising expectations. Remember, for each billion dollars of trade deficit, we have lost another 20,000 jobs in America.

"And so today I speak on behalf of every truck driver in this country, every retail store clerk, every hairdresser, every waitress, every factory workers, every farmer, every small businessperson on Main Street, every person the elites call the red, white, and blue-collar workers of America. You know who I am talking about.

"Most citizens are starting to understand the connection between their standard of living, their paycheck, and international trade.

American People Desire to Preserve Their Jobs

"They booted out the Republicans in 1992, and then the Democrats this year. They want a government in our Nation's capital that speaks to the economic stress

that they are experiencing in their homes every day, the shrinking buying power of their checks as they run faster to stay in place. In spite of working harder and rising productivity, it is tearing our families apart.

"We see two-track wage levels in the same factory, with CEO's often making hundreds of times more than their own workers; we see back-breaking overtime for those who have jobs, but no new hires brought on board because companies do not want to pay benefits.

"Our working men and women sense that both political parties, while embroiled in partisanship, have drawn them into a race to the bottom. American workers are further pitted against, under this GATT, the low-wage, undemocratic nations of the world in cahoots with multinational companies that owe their allegiance less to our Nation than to the despots from which these companies draw their succor. The Fortune 500 companies are the biggest backers of this agreement and have not created a single job in America in the last 20 years.

Look at Imports in the U.S.

"Look on the shelves – shoes from China. I went out to buy toys for my godchildren last week and could not find a single one made in America. Canned fruit from Thailand, VCR's from Japan. It is hard to find an American product to buy. Every year the deluge of imports gets larger. Think about a retail clerk at Wal-Mart who works part-time for minimum wage and has no benefits. when she sees a customer buy a \$100 pair of tennis shoes made in China by Nike but those tennis shoes cost that company only \$8 to produce in China, that clerk knows she is not benefiting from trade but somebody else is benefitting. And those who are benefiting are the biggest backers of this GATT agreement today.

"So, of course, this agreement has the multinational seal of approval on it, with all of their fancy brochures and ads in all of the major newspapers. But it is silent on the terms under which laboring people everywhere can gain a standard of living and legal status similar to that which we have in this country so that they can improve their way of life.

"This GATT agreement, like the GATT agreement before it, is silent, silent on the impact that it will have on the working men and women in America and, on those grounds alone, should be defeated. (*Congressional Record*, November 29, 1994, pp. H11443-H11444.)

A Tremendous Transfer of Power from U.S. to an International Organization

Congressman Duncan Hunter stated:

"My colleagues, this GATT agreement amounts to a transfer of power, I think we should make no mistake about it. Our trading competitors know that, and to

comment, to quote the French trade minister, Mr. Longuet, he says, 'Admittedly, the United States is more powerful in economic terms. They wielded a large stick which enabled them to have their way. From now on the stick will be more in the hands of the future World Trade Organization, which will become the world policeman of world trade.'

"So I think we should not kid ourselves about the World Trade Organization having some power and having some authority and being something more than the nothing that it has been described as by the pro-GATT advocates.

"The World Trade Organization is going to have clout. Right now we have clout.

The Power of the U.S. Market

"The strongest asset that this country has in managing its trade policy and in making a deal with another country and in opening up that country to our exports is the great leverage that we have with our market. We can stand toe to toe with any nation in the world and say, 'If you don't open up your market, we are not going to open up our market.'

"We have been able to do that up to now with bilateral leverage. Well, we are going to lose all of that in this World Trade Organization because now we are going to give this power away to a committee. My colleagues, this is not a committee of friends.

Foreign Nations Oppose U.S.

"Of the 123 nations that will form the World Trade Organization, about 85 of them have a record in the United Nations of being against the United States more than half the time. I want you to think about that a little bit. What does that mean?

"Those old United Nations votes were made back during the cold war when our main adversary was the Soviet bloc. The Soviet Union, which is no more.

"What does this say about this, the little countries like Bangladesh and Cameroon and those dozens and dozens of countries, each of which will have the same voting power in the WTO that the entire United States of America has. It tells you that those countries are subject to what we can call, charitably, friendly persuasion. It means when the Soviet Union leaned on them or offered them something and we were not willing to lean on them or intimidate them, to buy them, the other side did. And it got to vote for them.

"So, when we have a dispute and we look at this committee that we have given our power away to, remember, as politicians, when you give your rights away to a committee, you had better make darned sure it is a committee of friends. As we

look at this list, let us try to find a friend: Angola, Antigua, Argentina, Australia, Austria, Moraine, Bangladesh, Barbados. I would submit to you that we are not going to find a lot of friends. I think that is why it is very evident from this commentary around the world, by the French, by the Japanese – the Japanese foreign trade minister told his industrialists, 'Don't worry about 301. We will blunt it with the World Trade Organization.'

Shift of Power from Congress to WTO

"It is very clear that this is a shift of power, and it is not just a shift of power from the United States to this world committee, it is a shift of power from this body, this body which has had the constitutional responsibility to regulate trade.

"Very possibly this vote on GATT, if we pass it today, will be the last meaningful vote that we will make on trade...." (*Congressional Record*, November 29, 1994, pp. H11444-H11445.)

There is No Difference Between Political Parties on Trade and Commerce

Congressman Traficant stated:

"... There is no difference between the parties on trade, national security and commerce, the two major things we do in Congress. What is the difference between Democrats and Republicans on trade? Show me the difference between Clinton and Bush, Reagan and Carter, Nixon and Johnson. Show me the difference. We continue with the same so-called free trade ideology, and I could support it if it worked.

"My colleagues, our trade deficit will hit a record of \$150 billion this year, Japan's is up to \$60 billion, and now we are going with another free trade program. Japan has apologized, starting with Richard Nixon, for not opening their markets, and last year they apologized to Bill Clinton for not opening their markets. They build a Honda in America so they could import an America car.

Scare Tactics Used to Promote GATT

"Wise up.

"The stock market is going to fail if we do not vote for this? The banks are going to collapse? Who is kidding whom? I say to my colleagues, 'If you don't vote for this, the American people are going to stand up in their living rooms and cheer each other with high fives. The American people in the work place are going to say, 'My God, don't they understand what our concerns are?' They're not afraid of competition.'

"No tell me this:

"How could the Cleveland Browns compete with the Seattle Seahawks if the Seahawks are allowed to play with 15 players?"

"Ten cents an hour wages in China? Most-favored-nation trading status? Last month the trade deficit with China was \$3.6 billion. Last year it was 26 billion annualized. What will it be this year? Forty billion? What is Japan? Sixty billion?"

Loss of U.S. Jobs

"Now let us look at Mexico. All this great program is Mexico. Here is the bottom line:

"All these think tank experts say for every billion in trade deficit we lose 20,000 jobs. Well, our surplus was \$4 billion with Mexico. And a year after NAFTA it is down to a \$2 billion surplus.

"Here is the Traficant analysis:

"We lost \$2 billion in deficits the first year under NAFTA to Mexico. We lost 40,000 high paying jobs. I do not want to hear about flipping burgers anymore without benefits.

"Wise up, Congress. Now is the time for the Democrats to take a look. I say to my colleagues, 'If there is a Democrat policy here, you're the majority. The Republicans have the power to kill GATT. The American people know it. You're jumping into the same cesspool, being seduced into the same ideology the American people have been opposing, so help me God. And I have, in fact, supported many of your economic packages. I think your tax packages make more sense than the Democrats'. But on trade I think you're failing.'

"My colleagues, how...does America compete? Just look at Mexico: No IRS, no Social Security, no EPA, no OSHA, no workman's comp, no unemployment comp, no bank regulations, no security regulations, no minimum wage, no pension law, no labor law. They cannot even create a union in Mexico, and they hire people at 50 cents an hour. I ask, 'Why...would I invest in your district?' and then 4.5 billion dollars' worth of new investment in Mexico, and half of it came from the United States of America.

"This is not a general agreement on tariffs and trade. It is just simply another...awful trade treaty. It waives the Constitution and destroys American jobs." (*Congressional Record*, November 29, 1994, H11445-H11446.)

The Future Economic Prosperity of America

Congressman DeFazio from the Oregon made the following observations:

"Mr. Chairman, this is an extraordinarily important vote, and I do not believe that there is a vote that will have more impact on the day-to-day economic lives of the citizens of this country, a vote that will have more impact on the future economic prosperity and the competitiveness of this Nation in the world community, in all the votes taken by this Congress combined in this session and perhaps the last several sessions. And this should not be a vote taken at the 11th hour on the last day in a lame duck session of Congress, voted upon by many people who have been asked to come home by the American voters because they think they are just a little bit out of touch.

Republicans Could Block GATT Agreement

"This is the ultimate arrogance. Now the new leadership of the congress, the Republicans, are hand in glove in complicity in this agreement, because they could block it here today. They could stop this.

"This is not being done by the 103d Congress of the Democratic leadership, it is being done by the 104th Congress, the new leader, the gentleman from Georgia [Mr. GINGRICH], and his colleagues on the Republican side. They could stop this. It is within their power, and they will choose not to do it.

"We are going to hear a lot today and you have already heard about how great this is going to be. We are going to have a World Trade Organization and it is going to open markets for America. No, it is not going to open markets for America, it is going to further open the American markets to unfair traders around the world.

U.S. Laws Put at Risk

"This agreement does nothing to stop child labor. This agreement will put at risk the environmental, food, consumer, health and safety laws of this Nation to something called a World Trade Organization, an organization that will settle disputes over trade barriers, and trade barriers is interpreted as anything that restricts the free movement of goods, whether it is restrictions against child labor, whether it is restrictions against dangerous substances in food and pesticides.

Secret Tribunals to be Held in Geneva

"In secret tribunals – when I asked Mickey Kantor, our Special Trade Representative, how is it that the United States could bind itself to an organization that will have secret tribunals that will determine whether or not the laws of the United States are trade restrictive and should be overturned, he said 'You have to understand, most of the signatories of this agreement, they do not believe in our system of jurisprudence. They would be very uncomfortable in an open system. they would be very uncomfortable if we had rules of law. They are much more comfortable with secret tribunals with no conflict of interest rules.'

GATT Agreement Favors Only Multi-National Organizations

"We are lowering ourselves to the worst standards, to the lowest common denominator, in order to get something that a few multinational corporations desperately want.

"This will not benefit the American people \$150 each per year. Give me a break. I buy made-in-America shoes. They cost the same as the Nike shoes made in China and they pay a hell of a lot more to those workers to make them.

"Those profits do not go to the consumers. Those profits go to the stockholders, plain and simple, and there are a number of very powerful stockholders of corporations that desperately want this agreement done today, before the American people are focused on what a loser it is. (*Congressional Record*, November 29, 1994, pp. H11449-H11450.)

American People Oppose GATT Agreement

Congresswoman Bentley from Maryland stated:

"Mr. Chairman, this Lame Duck session of the 103d Congress should not be voting on the GATT. Three out of our of the voters think the vote should be postponed to allow study time by 104th Congress before it votes on the GATT and its World Trade Organization. Furthermore, recent polls show that 80 percent of the American voters are opposed to the World Trade Organization.

GATT Agreement Creates a New Government

"Why the voters are opposed was echoed by a former member of this body, U.S. Senator Hank Brown, who originally was inclined to vote for GATT. He changed his mind after studying the hundreds of thousands of pages making up the Uruguay round of GATT and accepted a challenge from Ralph Nader to take a test on the GATT. If all this was to remove tariffs/duties, that could be accomplished in one page. But because the agreement includes many other elements that adversely affect the United States, it is volumes thick.

"Senator Brown stated: "This treaty creates a new government without fair representation for the U.S. and an international court system without due process.

"The United States takes in about 30 percent of the world's imports and could pay up to 23 percent of the cost of running the World Trade Organization. Yet we would have only one vote out of 123. More than 90 votes would be controlled by Third World countries that pay almost none of the cost. The countries that pay have little control.

"The WTO creates 50 new committees, boards, panels and organizations and could become an international bureaucracy of unprecedented size.'

The U.S. Is Losing Its Sovereignty over Trade

"In short, 23 are losing our sovereignty over trade. The International Herald Tribune in an April 26, article this year said 'It will be actually be good for the United States to be overruled by the World Organization when Washington tries to take politically motivated action against other countries' exports.' doesn't say anything about what other countries can do to ours.

"This clearly spells out a loss of U.S. Sovereignty although Ambassador Kantor assures elected officials this is not so. What he is not telling officials is we are altering the Federal/State relationship with this agreement.

"States such as North Dakota, Florida and California have been faxing in the lists of law they want protected by the Federal government. What the Administration does not replay to the states is that it cannot be done.

GATT Law to Become Part of U.S. Law

"In fact the GATT Law Book, published in March, of this year by GATT clearly establishes that state laws must be changed. (Incidentally, advertisements for the book states lawyers need it if they want to practice law before GATT). On page 1001 it states 'That under United States constitutional law GATT law is part of United States Federal law, being based on the commerce clause of the Constitution, overrides, as a general matter, inconsistent State law.'

"What does that mean to us? It means the Federal/State relationship is being altered. Our environmental laws will be effected as well as our ability to set American standards over food and other products.

A Serious Blow to Inventors

"In addition, our most prized system, the patent and copyright system will be under the authority of the WTO. The Administration has dealt a serious blow to American inventors by sneaking a patent term change into GATT enabling legislation.

"The 20 year-from-filing date patent term is fixed while the other 123 GATT members have a 20-year minimum patent. Shortening the term is a direct attack on the American technology base.

"For 200 years we have led the world in technology, and this one act, will sacrifice that lead for the next 100 years. The Administration made this change in response to Japan and the large multinational companies. The patent term has no

business being included in GATT. The only reason it is so this body – the Congress – can never reverse that disastrous agreement signed by the U.S. Commissioner of Patents.

Jeopardizing American Jobs

"I ask you, where are the American people in this deal. We are jeopardizing American jobs – and transferring congressional sovereignty over trade to a foreign body. Most importantly, only one American, the Special Trade Representative, who currently is Ambassador Mickey Kantor will have standing at the WTO To represent the United States. No American citizen or business can address his or her concerns to the WTO. A basic tenet of American law is any citizen can address his or her concerns to the government – all Americans have a right to a jury trial in an American court. These rights are being seized from American business and American citizens in this document.

"It is unfortunate that we will not put off this vote until we can determine what kind of hydraheaded monster is being foisted on the American people. Our government will not be the same. "I hope my colleagues will hear this and vote no." (*Congressional Record*, November 29, 1994, pp. H11450.)

U.S. Companies Are Moving to Mexico

Congresswoman Kaptur stated:

"Madam Chairman, it gives me great honor today to be able to help summarize in debate here those of our colleagues who are opposed to this particular GATT agreement. Let me say to the working people across our country who are listening to us today, remember this vote, just as you remembered the NAFTA vote, and you have seen America's trade advantage with Mexico be cut by over half in the first 8 months of this year as more imports come in from Mexico than our exports going into that nation.

"We have lost a company a day to Mexico since that accord was signed. Now we move on to GATT.

Effect of GATT on Working Families

"Let me ask the working families of our country directly, those beyond the confines of these walls here in the Congress, do you feel that your wages, your buying power, and your standard of living have been slipping? Are you working overtime because your company will not hire more worker? Are you seeing your job status threatened because workers are being brought in at lower wages in your company? Are you being told if you stand up for fair compensation, the company will move offshore to Asia or South America? Have you seen your wages cut? Are you working two or three jobs, most of them part-time, just to keep your home

together? Are you having trouble finding the time to spend with your kids because you are so gosh darned busy? Or do you live in one of America's inner cities, Third World nations inside the borders of this country, where jobs at one time could be found as people began their climb up the economic ladder, but now only find closed factories, much idle labor, and a great deal of hopelessness?

"Madam Chairman, this is the eighth of the GATT agreements. It is not the first. For those who say this is the biggest whatever in the world, it is just more of the same. It is the eighth of the same, with some added bells and whistles, some of them pretty important.

Trade Agreements Produce Large Corporate Profits

"Madam Chairman, most Americans know this is happening to them. Yes, past trade agreements have produced larger corporate profits, and they have paid plenty to get their message out in this debate. Consumer prices have not gone down. Consumer prices have been going up.

"However, what has been happening to wages in America for over two decades? The buying power of our people has been cut consistently.

GATT Agreement Is Not Based upon True Free Trade Principles

"Working people of America, farmers, family farmers, remember this vote as you remember NAFTA. Free trade between free people is a great idea, but free trade among people who are not free means exploitation at both ends of the shipping channel, where our workers' wages are drawn down to the level of places that are unfree, nations like China, where our workers are put in competition with 4 billion people on the continent of Asia that have never known democracy 1 day in their life.

"It is unfair to our people and it does not uphold the best that is in us as a country. The Fortune 500 companies have plenty of wherewithal to get their message across inside the boundaries of Washington, DC, but outside the boundaries of Washington, DC, they have not created a single job in this country in the last two decades.

"Who would ever imagine that IBM Corp. would be on its knees? Who could imagine that the biggest automotive companies in this country would be creating more jobs abroad than they are inside the boundaries of the United States? This is a serious vote today.

Transfer of Sovereign Power to International Trade Bureaucracy in Geneva

"We have talked a bit, a tad, about the World Trade Organization, that cedes the rightful authority under our Constitution of us as elected Members of our people to

a bunch of trade bureaucrats over in Geneva that we have to pay for under this agreement. The agreement reads we must appropriate funds to pay for the operations of the World Trade Organization. It is just another form of foreign aid.

"We have to pay for an organization in which we will be put on an equal par, on an equal par with nations that vote against us 60 percent of the time in the United Nations, and we have no veto power.

"Working people of America, remember this vote. A good-paying job is the only ticket up the ladder of economic opportunity in this country, but where have the most jobs been created in this country over the last decade? Temporary work, restaurant work. If it were not for the minimum wage those people would be in the poorhouse, too. Jobs in nursing homes and in hospitals, which are among the lowest paid jobs in the country.

Trade Agreements Cause Trade Deficits

"Let us look at the record. If we look over here at every single trade agreement that the United States has signed, and this is the current area, 1994, right here, the result of every single one of those has been greater and greater and greater trade deficits that this country has amassed, which translates into for every \$1 billion of trade deficit, and this year it will be \$150 billion of added trade deficit, another 20,000 lost jobs in this country, people who cannot afford to come to Washington to lobby in the halls outside this Chamber, people who only have us as their voice. Working people of America, remember this vote, because when this vote is over, it will not be over.

GATT Only Benefits CEOs of Large Multinational Corporations

"There are no international standards contained herein, and there should be, to put the low-wage undemocratic nations of the world on a path upward. Rather, this GATT continues the same tired, worn-out policies that continue to pull our workers' wages and life styles on a race to the bottom.

"Working people in America, there is nothing in this GATT for you and your family. If you have calluses on your hands, if you have not gone to college, you are going to be one of the casualties, as these people have all been casualties, as these people have all been casualties, people who cannot afford paid lobbyists here in Washington.

"I ask my colleagues today to listen to the American people and vote against GATT. Eighty percent of the public has stated that they oppose the World Trade Organization.

Passage of GATT Will Prove How Out of Touch Congress Is with American People

"During the recent elections, these same Americans voted for change, not outdated, warmed-over trade policies which are hopelessly out of date. Passage of GATT will only prove how out of touch this Congress is with the electorate at large. Working people of America, remember this vote as you remember NAFTA.

"To my colleagues, then, if you are thinking of whether or not to vote for GATT, just ask your constituents back home who voted for you to be their representative. Eighty percent of them said 'no' to GATT.

"If you want to vote for rising incomes in America, vote against GATT. If you want not to cede the trade-making authority of the people of the United States to a bureaucracy over in Geneva where you as a private citizen will have no legal right of action under the laws of this country, vote against GATT.

"If you feel it is wrong that you will forgo \$50 billion of revenues to our Treasury that have to be made up by added taxes on you because that will be the beginning price of the enactment of GATT, vote 'no' on GATT. And if you care about democratic values and about people being treated decently in the workplace in this country and around the world, vote 'no' on GATT.

"Working people of America, remember this vote." (*Congressional Record*, November 29, 1994, pp. H11497-H11498.)

Forcing American Workers to Compete with Third World Workers Reduces Their Wages

Congressman Sweet from New Hampshire stated:

"Madam Chairman, I rise today in opposition to the GATT implementing legislation.

"The expansion of free trade is an important national goal, and there are aspects of this GATT agreement which I strongly support. I am very concerned, however, that this GATT agreement will force American workers to compete in a continual race downwards: Downward in wages, downward in environmental protection, downward in standards of living. Undemocratic nations around the world seeking a low-wage, low standard advantage will continue to steal American jobs. I fear that the only thing that will go up will be the federal deficit.

WTO Is a Huge International Bureaucracy

"This agreement hands over vast, new authority to a secretive World Trade Organization (WTO) – a world government body without fair representation for

the U.S. The WTO will be a huge international bureaucracy where the U.S. would have only one vote out of 123 countries.

"I am also very concerned about waiving Congress' budget rules in order to cover the billion of dollars in lost revenue to the Treasury. I believe Americans expect Congress to be fiscally responsible and should account for how the resulting 40 billion dollar additional deficit should be avoided.

"As world trade increases, we need to decide what fundamental values will form the foundation of our trading relationships. I believe that we should exercise our economic strength to ensure that new trade agreements protect and support our environmental and labor standards, economic interests, and preserve public participation in the development of trade policies. (*Congressional Record*, November 29, 1994, p. H11499.)

U.S. House of Representatives Passes GATT Agreement

After four hours of debate, the House overwhelmingly passed HR5110 by a vote of 288-146. Out of the total vote 121 Republicans favored the bill and 56 opposed it. On the Democratic side, 167 favored it and 89 opposed it. The vote was as follows: **YEAS** – Abercrombie, Ackerman, Allard, Andrews (TX) Archer, Arney, Bacchus (FL), Raesler, Baker (CA), Baker (LA), Ballenger, Barrett (NE), Barrett (WI), Bartlett, Barton, Bateman, Becerra, Beilenson, Bereuter, Berman, Beville, Bishop, Blackwell, Bliley, Boehlert, Boehner, Bonilla, Borski, Boucher, Brewster, Brooks, Brown (CA), Brown (FL), Bryant, Bunning, Buyer, Byrne, Callahan, Calvert, Camp, Canady, Cantwell, Cardin, Carr, Castle, Clayton, Clement, Clinger, Clyburn, Coleman, Cooper, Coppersmith, Cox, Coyne, Crane, Cunningham, Darden, de la Garza, Delauro, DeLay, Derrick, Deutsch, Dicka, Dingell, Dixon, Dooley, Dreier, Dunn, Durbin, Edwards (TX), Ehlers, Emerson, English, Eshoo, Ewing, Farr, Fawell, Fagio, Fields (TX), Filner, Fingerhut, Fish, Flake, Foglietta, Foley, Ford (TN), Fowler, Franks (CT), Franks (NJ), Frost, Fuise, Gejdenson, Gekas, Gephardt, Geren, Gibbons, Gilchrest, Gillmore, Gilman, Gingrich, Goodlatte, Goodling, Gordon, Goss, Grams, Grandy, Green, Greenwood, Hall (OH), Hamilton, Hansen, Harman, Hastert, Herger, Hoagland, Hobson, Hoekstra, Hoke, Horn, Houghton, Hoyer, Huffington, Hughes, Hutto, Hyde, Inslee, Jacobs, Jefferson, Johnson (CT), Johnson (GA), Johnson (SD), Johnson, E.B., Johnston, Kasich, Kennedy, Kennelly, Kim, King, Kleczka, Klein, Knollenberg, Kolbe, Kopetski, Kreydler, Kyl, LaFalce, Lambert, Lancaster, LaRocco, Laughlin, Lazio, Leach, Lehman, Levin, Levy, Lewis (CA), Lewis (FL), Lightfoot, Linder, Lloyd, Long, Lowey, Machtley, Maloney, Mann, Manton, Manzullo, Margolies-Mezvinsky, Markey, Martinez, Matroi, Mazzoli, McCandless, McCloskey, McCollum, McCrery, McCurdy, McDade, McDermott, McHale, McKeon, McMillan, McNulty, Mehan, Meek, Menendez, Meyers, Michel, Miller (FL), Mineta, Minge, Molinari, Moran, Morella, Murtha, Neal (MA), Neal (NC), Nussle, Olver, Ortiz, Orton, Oxley, Packard, Parker, Pastor, Paxon, Pelosi, Penny, Peterson

(FL), Petri, Pickett, Pickle, Pomeroy, Porter, Portman, Poshard, Price (NC), Pryce (OH), Quillen, Ramstad, Reed, Regula, Reynolds, Richardson, Ridge, Roberts, Roemer, Rostenkowski, Roukema, Rowland, Roybal-Allard, Sangmeister, Santorum, Sarpalius, Sawyer, Saxton, Schenk, Schroeder, Schumer, Scott, Serrano, Sharp, Shaw, Shays, Shepherd, Shuster, Skaggs, Skelton, Slattery, Slaughter, Smith (IA), Smith (MI), Smith (OR), Smith (TX), Stenholm, Studds, Sundquist, Swift, Synar, Talent, Tanner, Tauzin, Tejada, Thomas (CA), Thomas (WY), Thornton, Torkildsen, Torres, Torricelli, Upton, Valentine, Vento, Visclosky, Vucanovich, Walker, Walsh, Washington, Waters, Weldon, Wheat, Whitten, Wilson, Wyden, Wynn, Yates, Young (FL), Zeliff and Zimmer.

NAYS – Andrews (ME), Andrews (NJ), Applegate, Bachus (AL), Barca, Barcia, Barlow, Bentley, Bilbray, Bilirakis, Blute, Bonior, Browder, Brown (OH), Burton, Chapman, Clay, Coble, Collins (GA), Collins (IL), Collins (MI), Combest, Condit, Conyers, Costello, Cramer, Crapo, Danner, Deal, DeFazio, Dellums, Diaz-Balart, Dickey, Doolittle, Dornan, Duncan, Edwards (CA), Engel, Evans, Everett, Fields (LA), Ford (MI), Frank (MA), Gallegly, Glickman, Gonzalez, Gunderson, Gutierrez, Hall (TX), Hamburg, Hancock, Hastings, Hayes, Hefley, Hefner, Hilliard, Hinchey, Hochbrueckner, Holden, Hunter, Hutchinson, Inglis, Istook, Johnson, Sam, Kanjorski, Kaptur, Kildeo, Kingston, Klink, Klug, Lantos, Largent, Lewis (GA), Lewis (KY), Lipinski, Livingston, Lucas, McHugh, McInnis, McKinney, Mfume, Mica, Miller (CA), Mink, Moakley, Mollohan, Montgomery, Moorhead, Murphy, Myers, Nadler, Oberstar, Obey, Owens, Pallone, Payne (NJ), Payne (VA), Peterson (MN), Pombo, Quinn, Rahall, Rangel, Ravelle, Rogers, Rohrabacher, Ros-Lehtinen, Rose, Roth, Royce, Rush, Sabo, Sanders, Schaefer, Schiff, Sensenbrenner, Sisisky, Skeen, Smith (NJ), Snowe, Solomon, Spence, Spratt, Stark, Sterans, Stokes, Strickland, Stump, Stupak, Swett, Taylor (MS), Taylor (NC), Thompson, Thurman, Towns, Traficant, Tucker, Unsoeld, Valezquez, Volkmer, Watt, Waxman, Williams, Wise, Wolf, Woolsey, and Young (AK).

"Mr. RUSH changed his vote from 'yea' to 'nay.'

"So the bill was passed. (*Congressional Record*, November 29, 1994, pp. H11535-H11536.)

The Impact of GATT on State Sovereignty in America

The *Congressional Quarterly* is one of Washington, D.C.'s most respected publications. In the November 26, 1994 issue, the *Quarterly* prepared an overview of the new GATT Agreement. The section on State sovereignty vividly portrays how the WTO will impact U.S. and State law:

"State sovereignty. Under the bill, national governments would be responsible for ensuring that laws enacted by sub-governments, such as states and provinces, were consistent with the worldwide trade agreement. To avoid trade penalties

when the WTO rules that one of the U.S. state laws violate a GATT commitment, the federal government would be required to get the state law overturned, either through consultation or judicial action.

"The implementing bill would require the USTR to set up a federal-state consultation process on GATT issues. Whenever another WTO member nation questions or challenges a state or local law as conflicting with GATT, the USTR would have to consult with the state's governor and chief legal officer of the affected jurisdiction in developing a U.S. position in the dispute.

"If the WTO rules against a state law, the USTR would have to consult with state officials to attempt to develop a mutually agreeable response. The only way a state law could be declared invalid for violating the GATT agreement is if the federal government were to pursue a successful lawsuit for such purposes. Only the United States would have legal standing to sue states or localities over GATT issues. No individual or foreign government could sue on such grounds.

"Congressional and public consultation. The USTR would have to consult with appropriate congressional committees before any WTO vote on an action that could affect U.S. rights or obligations under the WTO agreement or potentially require a change in federal or state law.

"Whenever the United States was a party before a WTO dispute settlement panel, the USTR would have to consult with congressional committees and relevant private sector advisory committees concerning the issue at hand.

"The USTR promptly would have to make available to the public U.S. written statements to WTO panels, request the other party in the dispute to do the same and make each WTO report available to the public promptly after it is circulated to WTO members. If other parties do not release their confidential submissions, USTR would request non-confidential summaries of those submissions.

"In the event of an adverse WTO ruling, no federal regulation could be changed until congressional committees are informed, the USTR seeks advice from private sector advisory committees and public comment is solicited through the Federal Register. No final rule could take effect until 60 days after consultations with congressional committees begin; during that period, the House Ways and Means Committee or Senate Finance Committee could hold a nonbinding vote on the proposed rule.

"The USTR would have to report to the Ways and Means and Finance committees at least 30 days before bringing a legal action to declare invalid a state law that was ruled inconsistent with the GATT, and would have to consult with the committees before the action is brought.

"By March 1 of each year beginning in 1996, the USTR would have to submit a report to Congress detailing the WTO bureaucratic structure, including how much the United States and other countries contribute to its budget, any WTO dispute settlement action that affected federal or state law, and what progress was made in achieving greater openness ('transparency') of WTO proceedings.

"Within 90 days of receiving the first USTR report after the fifth anniversary of U.S. entry into the WTO, and every fifth year thereafter, Congress could withdraw the United States from the WTO by enacting a joint resolution. Relevant committees would have up to 45 days to review a proposed joint resolution... (*Congressional Quarterly*, November 26, 1994, p. 3411.)

Debate in the U.S. Senate

Let us now look at the debate in the U.S. Senate. The debate began on November 30, 1994. Senator Hollings from South Carolina stated:

"Mr. President, we are discussing here an extraordinary piece of economic policy for this country. And, as we begin this discussion, I thought it would be useful to present a chart that shows where we are. This chart shows our merchandise trade deficit in this country. The red lines going down represent red ink, trade deficits, a hemorrhaging in this country. This is an extraordinarily serious trade deficit that represents a serious problem for this country. All of this red means less income for our country, fewer jobs in America. All of this red means a failed trade policy in our country.

America Has Become the Largest Debtor Nation in the World

"With this as a backdrop – America as the largest debtor Nation in the world; a failed, collapsed trade policy resulting this year in the largest trade deficit in America history – we are told by the same bipartisan group of people who have hugged and embraced this trade policy now for 30 or 40 years: We want to do more of the same. Let us put a bigger engine in the same old vehicle.

"There is an old saying: When you find yourself in a hole, it is time to stop digging. The crowd that would have us pass GATT says that when you find yourself in a hole, let's pass out more shovels.

GATT Is Hurting America

"This policy, which comes to the Senate as GATT, is a trade policy that is fundamentally hurting America. I am for free markets. But that must be accompanied by a fresh, new admission price to our marketplaces. That admission price should say we will trade with anybody, as long as they pay a living wage, have working conditions that are fair and safe, and are not fouling the world's air and the water. There should be some minimum conditions that must be met.

"We should not say let us simply have open markets and free trade and go ahead, you producers, and hire 12-year-olds working 12 hours a day, paid 12 cents an hour, and send the products of their labor into our marketplace to eliminate our jobs. That might satisfy some – certainly the large international businesses that profit from it – but it does not satisfy me and it does not satisfy this country's economic interests either.

Deceptive Arguments Used to Pass GATT

"Let me read some of the arguments of the proponents of this agreement. I hope those who support GATT and are urging us to pass it would listen to this.

"These agreements offer new opportunities for all Americans. For American farmers, the agreements expand world markets for American farm products. For American workers, the agreements offer more jobs, higher income, and more effective responses to unfair foreign competition.'

"Oh, no, that is not the argument made today, Mr. President. That is the argument made in 1979 for the Tokyo round. The argument will be made today, in exactly the same language by many of the same people. So let us look at what the outcome was. Better for farmers? More jobs? Higher incomes for American workers? Oh, no. Following the Tokyo round, agricultural exports since 1980 are up just 5 percent, while agriculture imports since 1980 are up a whopping 32 percent.

"American workers seeing good times? No. A net loss of 3.3 million manufacturing jobs since 1979. Higher incomes? No. Sixty percent of American households now have lower income than they had a decade ago.

"Another argument: 'These agreements will result in lower prices, increased competition and greater prosperity for all the American people.' An argument made today that also was made in 1979 about the Tokyo Round.

"Where is the greater prosperity? Real hourly wages for U.S. production workers, which had grown 3 to 5 percent annually for many years, stopped growing in 1973 and have now declined to mid-1960's levels on a real-income basis.

"This new order, the new order that was promised in 1979, is identical to the promises we are hearing today: More jobs, more income.

"Nonsense. The record shows just the opposite happened.

Trade Agreements Are Raising the American Standard of Living

"Let me share with my colleagues something very interesting that I read last evening. This comes from the Finance Committee from 1986. They are talking about the Tokyo round completed in 1979.

"The committee is concerned the Tokyo round of trade negotiations and the legislative branch and executive branch's actions to implement it have not had the effect of improving the American standard of living intended.'

"They go on to talk about the sea of red ink and the trade deficits. The Finance Committee itself said the Tokyo round did not work. Exactly the same arguments that were used to promote that trade agreement in 1979 that we hear again today in connection to the Uruguay round.

"My point is that those arguments that drove the Tokyo round in 1979 were wrong. They are demonstrably wrong. The facts show it. Our economy shows it. Lost jobs, lost incomes show it. Do these arguments have any credibility anymore?

"We had an election recently. The election was about change. Does anyone doubt that the election was about change? Yet this trade strategy is business as usual. You strip away all the brush here and what you find at the roots is one central fact: The largest international businesses in the world want to produce where it is cheap and sell back into our marketplace. That might be good for international business' profits, but it certainly is not good for the prospect of jobs and decent incomes for American families.

GATT Opens U.S. Markets

"Open markets? Sure. I believe in open markets. But I believe there is an admission price to those open markets. You have to pay a living wage. You have to care about worker safety. You have to care about the things that we fought for 50 years in this country to achieve that have made life better for Americans.

"And, if you strip away all the nonsense, all the fractured statistics, all the charts and all the graphs, there is one central question we must ask ourselves: Is the standard of living for the American family improving or declining? In other words, will this agreement, which asks low-wage and low-skill Americans, who comprise nearly two-thirds of the work force, to compete against 2 or 3 billion low-skilled people in the world, many of whom are willing to work for 8 cents, 20 cents, or 80 cents an hour – will it improve the standard of living in this country? The evidence is all around us. The answer is no.

GATT Is a Strategy for Larger Corporate Profits

"This is a strategy for larger corporate profits and a strategy for lower income for American workers and fewer jobs.

"Let me show one additional chart that illustrates the problem quite graphically, I think. The blue line shows productivity in America. Productivity has increased. The red line shows household incomes. Regrettably, they are moving in opposite directions. Why?

"The answer is that American workers cannot compete when those who head the multinational corporations get in an airplane and circle the globe to try to figure out where they can produce at the least cost to sell the products back into the best marketplace. And that is the disconnection we have with this trade agreement.

GATT Will Impinge on U.S. Sovereignty

"I could talk about the World Trade Organization and other elements of GATT. It is absurd for anyone to argue that the creation of a World Trade Organization does not impinge on our sovereignty. Of course it does. That is precisely why it was created. Of course it does.

Child Labor Policies

"I could talk about child-labor conditions: 200 million children working in the world – 3-year-olds, 6-year-olds, 10-year-olds, 12-year-olds. It would break your heart to hear the facts. Children making carpets, cutting knots with knives. There was testimony before the Senate about someone in those factories who sees burnt fingers and wonders why, and then discovers 12-year-old kids using knives to cut knots on silk rugs are cutting their fingertips, and those who employ them use matchstick powder to burn in those fingertips to create scars so they can keep those kids working. It breaks your heart to see the working conditions around the world. Should we compete with that? Of course not. Does this prevent competition in those circumstances? Regrettably, no.

"They chant 'free market,' like a mantra. It is as if they are beating cymbals and chanting over and over again: 'Free market, free market, free market.'

"That is not what is important. Yes, let us have expanded opportunities. Yes, let us compete around the world. But let us make sure the rules are fair, and let us make sure the end result represents a better standard of living for American workers.

Standard of Living in America to Decrease

"That is, by far, the most important of all the measurements: What happens to the standard of living for those in this country who produce, who risk their capital to keep jobs in this country and for those who work for them, who want a living wage and want a safe workplace. That is what is important.

"I regret that this administration is supporting this GATT agreement because I feel so strongly it is bad for this country. President Clinton and Mickey Kantor are people who have had the guts to stand up to other nations in bilateral negotiations, such as those with Japan. They stood up and fought for us on grain problems with Canada. This administration has done thing, when previous administrations had sat on their hands. I compliment this administration for that.

"When the winds of change out there suggest the American people do not like the direction we are moving, you would think that this would be the time to assess what is going wrong. Why are incomes declining in America, and what can we do about it?

GATT Places U.S. Workers at a Disadvantage

"This kind of trade agreement, which asks American workers to compete against others around the world who are going to be paid 20 cents an hour, is a strategy for enhancing corporate profits and diminishing the importance of, and the ability to help families, that depend on American jobs.

"Instead of having thoughtless discussions about trade where we put people into two camps – the free-trade camp that sees over the horizon and are the know-all, see-all wise folks; and the 'isolationist xenophobic stooges' who cannot see anything, and are protectionists who want to put a wall around the country – I hope one of these days we can do better than that. That is thoughtless sloganeering and nonsense.

"I do not want to put a wall around our country. I want goods to come into America and compete on a fair basis. The only caveat for me in the long term is that all of us should work toward establishing policies that will enhance the ability of American families and American people to find good work that pays good wages and enhances and improves their standard of living.

U.S. Trade Strategy Is Wrong

"Frankly, the evidence is all around us, littering the floor of the Senate and the House from past trade debates. The trade strategy is wrong and it should not take a sea of red ink, our worst trade deficit in history this year and the transformation of America from the largest creditor nation in the world to the largest debtor nation in the world, to convince us of that.

"Anyone who remains unconvinced has simply been reading the wrong information. My friend, Senator BROWN, from across the aisle, I understand, had said he previously was inclined to support GATT. But then he courageously was the only Member of the U.S. Senate to accept a challenge from Ralph Nader to take a test of knowledge about GATT. So my friend, Senator BROWN from Colorado, apparently spent his Thanksgiving reading and studying GATT, and then took the test.

GATT Is Not Good Policy

"I am pleased to say he upheld the honor of the Senate and passed that test and apparently won \$1,000 to be given to charity. But I think he is going to tell us what he told some folks yesterday. Upon reading this document, he concluded it is not good policy for this country. This is not about us versus them. It is not about Republicans versus Democrats. This is about change versus more of the same. And more of the same will hurt this country badly.

"I hope the Senate will reject GATT and decide instead to expect, to demand, fundamental change in our trade strategy – not to close this country's borders, but to declare that there is an admission price to exercise the rights of the marketplace in a country like ours. And that admission price is that you must pay a living wage and play by the rules...." (*Congressional Record*, November 30, 1994, pp. S15094-S15095.)

The Need to Focus on the GATT Agreement Itself

After a detailed study of the GATT documents Senator Brown of Colorado stated:

"Thank you, Mr. President. I want to thank the distinguished future chairman of the Finance Committee for the time. Many Members have come to the floor and expressed concerns about GATT or approval for GATT. Others have talked about whether or not they favor free trade or open trade. I favor free trade. I favor open trade. I am for lowering tariffs and eliminating quotas. I am for expanding the world's trading market. But, if you believe as I do and study the agreement, instead of being for GATT, you will be very concerned about it.

"Let me be quite specific because much of the debate has been bumper-sticker debate, debate over whether you favor free trade or not, debate about whether U.S. sovereignty is infringed or not. These are not the issues. We must focus on the agreement itself. Let me be very specific.

GATT Sets Up an Ineffective Court System

"GATT sets up an ineffective court system that will replace our ability to litigate many of these trade questions in U.S. courts. The dispute settlement body

will establish a series of panels to rule on trade disputes. Unlike U.S. courts, the proceedings of the panels will be conducted in secret. Non conflict-of-interest rules exist to ensure impartial panelists. Decisions will be rendered anonymously by unaccountable bureaucrats and the appeals process will not be subject to outside review.

"Who in this Chamber believes we ought to have a court system that does not have the basic elements of procedural due process? GATT sets up a court system without procedural safeguards to ensure due process. In effect, it establishes a trade legislative body with the right to rule on implementation of its own laws, unlike in the United States where we separate these functions into separate branches of government.

The WTO Will Legislate Future Trade Policy for the U.S.

"Please do not be mistaken. GATT's new WTO will legislate future trade policy. Does it force us to adopt their legislation? No, it does not. But can they influence and amend the agreements that we are involved in? Yes, they can.

Equal Representation in GATT Is Non-Existent

"The problem is not that we have set up an international system for legislating in this area. The problem is that we have set up a legislative system without fair representation. Under the new rules established under the GATT, we will have one vote out of all the member countries, currently expected to be at least 123, yet we will pay the greatest share of the bills. Nearly 25 percent of the cost could fall upon U.S. shoulders, and yet we will have less than 1 percent of the control of how the money is spent. Is that a problem?

U.S. Taxpayer Money Used to Finance High Salaries at IMF and World Bank

"Please look at the World Bank and the International Monetary Fund. During more than a billion dollar increase in taxpayer funds to the World Bank, I challenged Members of this Senate to come forward and defend the way that the money of American taxpayers is spent. At the World Bank, according to articles published in prominent news sources, the average salary was \$123,000 a year – that is right, you heard me correctly, an average salary; that includes janitors, service people, receptionists, nonskilled workers – an average salary that is roughly equivalent to a U.S. salary of \$176,000 a year because the \$123,000 average is tax free. Why do salaries get that way? Because those who pay the bill and those who decide the staffing are not the same.

"Will that be a problem with the new GATT organization? Yes. It will create 50 new councils, committees, panels, and working groups. It is going to be a huge international bureaucracy. The United States will pay the bills and others countries will decide how it run.

"Lastly, it is a one-sided agreement. Anyone who thinks we are getting into an agreement that expands free trade has not read the text of the agreement itself. Let me repeat that, because it is absolutely true and I hope Members will focus on it. Anyone who thinks this is an agreement that expands free trade has not read it.

GATT Agent Opens U.S. Markets

"Why do I say that? It expands the openness of our markets but authorizes developing countries and the least developed countries to exempt themselves from those liberalizing effects, some for 5 years, some for 7 years, some for 8 years. The exemptions vary by agreement. But what this agreement does is open our market and allow the developing and least developed countries to keep theirs closed. Some will say, 'Hank, Wait a minute. In 5 or 8 years that market will open, or in 10 years the market will open, or in some areas in 12 years it will open.' If they say that they have not looked closely at the way the WTO will operate. Most of these agreements provide authority for the WTO to amend them. Could they clear the necessary procedural hurdles to amend them?

"More than three-fourths of the votes in the WTO are in the Third World – more than three-fourths of the votes. Three-fourths is important because it is the majority needed to amend and interpret the agreements. With more than three-fourths of the votes in the WTO, the Third World's less developed countries can extend these exemptions ad infinitum. There is some language in the agreement that indicates that is a possibility.

GATT Sets Up a Court System without Due Process

'What is the bottom line? The bottom line is we set up a court system without due process. We set up a trade legislating body without fair representation. I do not know what you would consider fair. But let me tell you, I do not think you will consider WTO fair. We have 1 vote out of 123, and we are going to pay 25 percent of the cost with less than 1 percent of the votes. In the United Nations at least we have a veto. In the IMF at least we have a weighted vote. In the WTO, we have no protection. We pay the bills and other members will determine the cost. It is completely a one-sided agreement.

"Let me be specific because those are serious charges and they are ones that Members ought to be concerned about. In the court system that they set up – again it is called the dispute settlement body – a panel is appointed.

"The ministerial conference will elect the director general, and the general council will substitute for the ministerial conference when it is not in session. The director general will help recruit, hire and employ the secretariat. The Third World controls the selection of the director general. That is not speculation. If all signatories join, the Third World will have 83 percent of the vote. You tell me who is going to control the director general. With 83 percent of the vote the Third

World is going to control the director general. The director general handles the hiring of the secretariat and the supervisors. When you have a question that has to be interpreted, a litigation, in effect a court hearing, it is the secretariat that is hired by the director general controlled by Third World country members that will decide upon the experts to make decisions and recommendations in a trade dispute. Will these experts be weighted in favor of the Third World countries? You bet your life they will be.

"From that pool of experts will be selected the three or more members that will be on the panel to settle the dispute. They decide it. Some will say that is OK. They have to be fair. Do they have to be fair? Do they have to have open hearings? No. They do not. They even render anonymous decisions.

"Mr. President, the heart of the WTO will be a court system that does provide procedural due process safeguards. I hope the Members who are in favor of this will come to the floor and tell us why we should not expect to have due process in these hearings. Before Members vote, I hope they will ask themselves the same question.

U.S. Is Outvoted on WTO

"We have talked about trade legislation. But let me simply mention this. The United States has one vote. The European Common Market has 16. Does anybody here think that is fair? If they think that is fair and they are going to vote for it, please come down and tell me why the United States gets 1 vote and the European Common Market gets 16. I want to hear why and so do the American people. If you like the WTO, tell me why it is fair that 18 countries with populations of under 1 million apiece will have more voting power than the United States and the European market combined.

"Let me repeat that. Eighteen countries with a population less than half the size of California are going to have more voting power than all of the United States and the European Common Market combined. If you think that is fair, come down to the floor and tell me why you think so. Anyone who thinks this is about fairness and a valid legislative body to settle trade disputes has not read the legislation.

GATT Is a One-Sided Agreement

"Mr. President, I have talked about it being a one-sided agreement. I want to be specific about that because I think that may be something that Members have not focused on. When I say it is a one-sided agreement, let me be specific. Members are from dairy States. I hope you will look at this. Under the GATT-WTO agreements, the European Union is allowed to spend \$2.5 billion a year to subsidize the exports of 30 billion pounds of milk, \$2.5 billion a year for EU subsidies for exported milk. Does the United States get to spend an equal amount

or maybe a larger amount? No. Under the agreement we are limited to less than one-twentieth of the European Union's allocation.

The U.S. Was Out Traded

"Anyone who thinks this is a fair, balanced, open market agreement has not read it. The fact is, the United States was out traded. When we are allowed to use one-twentieth of the resources that the European Economic Community is allowed, I do not think it is fair. If somebody does, come down and say it. If somebody thinks having a 20-to-1 advantage is fair, please come and talk about it. Go on the record, because it is not fair. It is not evenhanded, and it is not a good negotiation. Is that the only example? No.

Intellectual Property Rights

"Take a look at the agreement on trade-related aspects of intellectual property rights. We ought to respect property rights. People are proud of this agreement because it expands free trade and protects property rights. Read the agreement. We have 1 year to bring our intellectual property standards into line with the accord; 1 year. Is that the same for every other nation? No. Developing countries have 10 years. The least developed countries have 12. Let me repeat it. We have 1 year. They have 10 years. For 10 years they can violate those agreements and get away with it. We have signed an accord that recognizes their right to do so. Is that fair? Does anybody think that is fair? Will the advocates of this measure come to the floor and tell us. Is it fair for us to have 1 year and them to have 10 to 12 years? But the disparities do not end here. Because after they get through with 12 years of cheating on our patents – cheating and stealing which we will recognize as their right – after they get through with 12 years of doing that, they have the right to come back and amend the rules to continue. We will not have enough votes to stop them.

Special Treatment for Developing Countries

"Let me follow up because it is important for Members to take a look at the exact specifics. In agriculture, if you are from an agricultural State, let us take a look at page 1366. Here is what you are going to find: Part 9, article 15: 'Special differential treatment.'

"Those are not my words. Those are the words out of the agreement.

"1. In keeping with the recognition that differential and more favorable treatment for developing country Members is an integral part of the negotiation, special and differential treatment in respect of commitments shall be provided as set out in the relevant provisions of this Agreement and embodied in the Schedules of concessions and commitments.

"2. Developing country Members shall have the flexibility to implement reduction commitments over a period of up to 10 years. Least-developed country Members shall not be required to undertake reduction commitments.'

"It is right there. That is not fair trade. That is not evenhanded trade. We were out-traded. We opened up our markets and let them keep them closed. Moreover, remember the exemptions that are here do not necessarily run out because those who benefit from them can then amend the rules.

"Page 1386, article 10, 'Special and Differential Treatment.'

"This is the sanitary and phytosanitary agreement. It is an important agreement. It is what many of our constituents see as important because they believe it will give them protection in other nations similar to those required here and will establish a fair standard for trade with foreign countries. Read what those fair standards are.

"Paragraph 3:

"'With a view to ensuring that developing country members are able to comply with the provisions of this agreement, the committee is enabled to grant such countries upon request specified time limited exemptions, in whole or in part, from the obligations under this agreement taking into account their financial and development needs.'

"Has anybody read it? The people who think it is so great, do they understand it is going to apply to us and not necessarily to the countries we sell to? Have they asked themselves who has the power to extend these exemptions? It is a body of which 83 percent could be developing Third World countries. In the current GATT, there are only 90 developing country members so far, well over three-fourths necessary for approval of rule changes and amendments. Is that out of line? Look at page 1438, Article 12, Special and Differential Treatment of Developing Country Members, 12-1:

"'Members shall provide differential and more favorable treatment to developing country members to this agreement through the following provisions, as well as throughout the relevant portions of other articles of the agreement.'

"It says 'shall provide.' That is under the technical barriers to trade. If you talk to Members who are advocates of this agreement, they will tell you how great this agreement is because the agreements on technical trade barriers are going to break down foreign trade barriers to our products.

GATT Is Not a Fair Agreement

"Read the Agreement on Trade Related Investment Measures on page 1449, Mr. President. And I can go on. But if Members are voting for this because they like free trade and want to open up foreign markets and think this is a way to do it, please read it and look at the votes that are in the WTO. If anybody thinks this is fair, please come down and say so. I want to know why it is fair that Americans ought to subject their market to foreign trade without having the same access to other markets.

GATT Will Reduce Patent Protection in America

"Some of you may know America is a great inventive and creative country. Part of that is because of our patent procedures that protect our inventive creations. Under U.S. law, we currently have 17-years of patent protection from the time a patent is approved. But the implementing legislation will change it to 20 years from the time the patent application is filed. The net effect according to the U.S. biotechnology industry is that this legislation will reduce U.S. patent protection from 17 to 10 years because of the lengthy time required for patent approval. Who will that favor? Not the United States. A patent-producing country, an invention-producing country, will be at an enormous disadvantage. When you look at Japan, who leases our patents, you can see this industry will have an enormous pickup because they will have to pay for that patent for a period of a decade less...."

GATT Creates Unfair Trade Rules

"Mr. President, before Members cast a final vote, please read what others have said about it. Le Monde, an influential French newspaper, commented:

"'A great power like the United States has now less power to impose its views on other countries because it has agreed to the following rules of the multilateral game.'

"Mr. President, that is what the French have said. From the European Union, Sir Leon Brittan says this:

"'A major trading power such as the United States now has fewer levers with which to impose its views on other countries because it has formally agreed to be more mindful of the rules of the multilateral game. This has always been an objective.'

"The bottom line is this: We have pretty good leverage now. We have not done with it what we ought to. But this agreement has one big impact: It creates unfair trading rules and it changes the rules of the game so the United States loses its leverage and power to open up markets. If you favor free markets, as I do, and expanded trade, please read the agreement. I think you will find that rather than

opening up the market, this cements the closure of some and creates loopholes for others. What it says to the rest of the world is that you can have access to our market without us having access to yours. That does not expand or help free trade, it hurts it.... (*Congressional Record*, November 30, 1994, pp. S15095-S15097.)

GATT Should Be Considered as a Treaty

Senator Byrd stated:

"Mr. President, with great respect to the very distinguished chairman of the Finance Committee, and to the very able ranking member of the Finance Committee, I make these comments, and in the spirit of total friendship, admiration, and high regard. I am opposed to the executive agreement on the GATT Uruguay round, and I shall shortly raise a budget point of order against it, even though the waiver of the point of order will not be voted on until the very end of the running of time on tomorrow and just prior to the final vote.

"While I support efforts to reduce tariffs the world over, I believe that the Uruguay round is of such stature, such scope, and such permanence that it should have been considered as a treaty, requiring a supermajority vote in the United States Senate, rather than as an executive agreement requiring a mere majority in both Houses of Congress.

"I do not take the position that it is constitutionally wrong or that it violates the Constitution not to have this far-reaching matter presented to the Senate in the form of a treaty, but as an executive agreement.

Trade Agreements Bypass Treaty Making Provisions of Constitution

"I do take the position that it should have been presented as a treaty because of its scope, its dignity, its stature, its far-reaching importance, and I realize that, more and more, we are getting away from the use of treaties in dealing with such vital matters and going more and more to the executive agreement instrument. I feel that, with each time this is done, it becomes easier on the next occasion to proceed by way of an executive agreement rather than by the instrument that is set forth in Article II, section 2 of the U.S. Constitution, the language dealing with the treaty process.

Treaty Making Clause Is Being Replaced by Executive Branch

"Inevitably, over a period of time the result of this growing trend will be a reading out or an amending, in effect, of the treaty process as set forth in the Constitution.

"The messenger in the third part of King Henry VI stated it well when he said:

"But Hercules himself must yield to odds;

" And many strokes, though with a little ax,

"Hew down and fell the hardest-timber'd oak.'

"So, Mr. President, that hardest-timber'd oak of the treaty process as set forth in Article II, section 2 of the Constitution will eventually be hewed down and will have been felled by the many deviations from the use of that constitutional provision.

GATT Should Be Considered in 104th Congress

"In any event, action on the Uruguay agreement should be delayed until next year. The Members of a new Congress, not the lame-duck Members of the old Congress, should have the opportunity to fully study the agreement and make their decisions with more attention to the details of this far-reaching agreement.

"People of this country are entitled to render a verdict on the judgment of lame-duck Members as expressed by their votes on this matter. Those lame-duck Members, those who will have retired, those who will have been defeated at the polls – and I say this with the highest respect for any and all of those Members – they will have had a free ride; they will not have to answer for their vote to the judgment bar of the people at the next election.

Fast Track Authority Should Not Be Used

"I regret that. I regret that this vital issue is to be decided in this Congress

"I also regret the rape of the legislative process by the fast-track procedures which will govern the decision by the Senate on this agreement. 'Fast track' should never be imposed on a matter which can be so destructive of Senate prerogatives, so destructive of States' rights, and so destructive of the sovereignty of the people of this Republic.

"'Fast track' is nothing more than a quick shuffle designed to ram through this agreement without much scrutiny. Therefore, Mr. President, here we are at this late hour, faced with an upcoming vote on a matter about which we know little debate and tie our legislative hands with respect to amendments, leaving us only with a choice of voting this important legislation up or down.

"The President is not to be blamed for this fast rack. The Senate itself must bear the blame. It was the Senate that voted to bind itself, hands and feet, with cords of steel that shut out amendments. It was the Senate that voted to impose the gag rule upon itself and to limit free and open debate to a paltry 20 hours concerning a matter about which vote we may have ample decades during which to regret.

"I wrote to the President earlier this year and urged that he not present this agreement to the Senate this year, that he delay the presentation until next year so as to give Senators more time to consider, and so as to give the Members of the 104th Congress, who will be fully responsible under the new leadership in the Senate and in the House, to answer to the bar of judgment of the people come the next election.

"The President wrote back and in a very nice way declined to follow my request.

WTO Agreement Should Have Been Submitted as a Treaty

"It is my belief that the approval mechanism that ought to have been used, especially for the WTO portion of the GATT agreement, is the constitutional procedure for treaty ratification. In fact, the introductory note in the final text of the Uruguay agreement declares as follows: 'By signing this Final Act at the Marrakech Ministerial Meeting, the participants will establish the text' – this is the final act from which I now read – 'the participants will establish the texts set out in the Annexes, in accordance with international treaty practice.'

"Hence, it is evident that the Uruguay Round's Final Act contemplated action thereon as a treaty.

The Power of the WTO

"The new World Trade Organization would have the authority to set parameters reaching far beyond trade law. Thus, the ability of Congress and the ability of State legislatures to legislate in the best interests of the United States, and the States, respectively, will for the first time in our history be subjected to the review of secret panels comprised of citizens of other nations. Amazingly, the World Trade Organization can require that the United States and other members conform domestic laws to WTO rules.

"For example, laws imposing an asbestos ban would not be allowed unless they enjoy means that are the 'least trade restrictive' alternatives. U.S. laws and State laws in many areas must comport first with the WTO's trade rules, or such laws can be challenged as an 'illegal trade barrier' by other countries. Federal and State laws dealing with toxics and hazardous waste, consumer protection, recycling and waste reduction, pesticides and food safety, energy conservation, wildlife protection, and natural resource and wilderness protection, would all be vulnerable to WTO challenge. The new GATT would prevent countries from rejecting products based on how they are made; for example, with child labor or with ozone depleting chemical processes.

State and Federal Law Will Be Affected by GATT

"There is no doubt that State as well as Federal law would be affected. Article 3 of the agreement says so in plain language.

"All of this means that we can only maintain standards that are consistent with the terms of the agreement – and here it is, 2,000 pages of it – and they must be 'least trade restrictive,' regardless of political feasibility. A wholesale circumvention of many of our domestic laws is, therefore, invited.

"Now I ask the question: Who shall be the umpire or referee when U.S., state, municipal, or local laws and regulations are challenged by other members of the World Trade Organization?

"Under the agreement, a Dispute Settlement Body [DSB] shall have the authority to establish panels.

"A standing Appellate Body shall hear appeals from panel cases. The functions of panels would be to examine any matter referred to the DSB by the complaining party and stand in judgment on claims against the U.S. by any GATT member.

"There is no outside appeal, no external standing review body. None. The proceedings of the appellate body shall be confidential and final.

"Where a dispute panel or the appellate body concludes that U.S. law, regulation or administrative procedure is inconsistent with a covered agreement, the WTO shall recommend that the member concerned bring the measure into conformity with the covered agreement.

The WTO Is an Anti-Democratic Institution

"Mr. President, I am opposed to the prospect of creating a new international institution which is fundamentally antidemocratic closed to the parties unless they are invited and closed to the participation of the people of the world.

"Mr. President, the Long Parliament in England abolished the Star Chamber in 1641, which by means of secret trials and arbitrary judgments, had suppressed the opponents of Charles I, who later paid with his life on January 30, 1649. I should think that every Senator – this Senator does – would object to this new type of Star Chamber which will be installed with the approval of the Uruguay agreements and which will, by arbitrary and secret meetings render judgments and impose sanctions against members whose laws, regulations, and administrative procedures are not in conformity with the rules and regulations of the World Trade Organization.

U.S. Laws Will Be Challenged by Foreign Parties

"Beyond the delicate issue of the political accountability of foreign nationals ruling on the legality of U.S. laws lies perhaps even greater concern for states. Georgetown University Law Professor Robert Stumberg, in a report prepared for the Center for Policy Alternatives, has identified 90 statutes in California alone that are likely to be subject to WTO challenge.

"If a foreign nation wins a challenge to any United States law, state or federal, and the United States declines to revise or preempt the law, or otherwise deprive the law of its effect, the foreign country would be free to impose countervailing sanctions including fines against the particular offending U.S. industry or any other – not just the offending industry, but any other U.S. industry or sector.

A Secret Panel with Power to Fine American Taxpayers

"This could amount in effect to a secret foreign panel's levying taxes on the American people as a punishment for not altering U.S. law to a complaining party's liking. Think of that! Observe how we worry and scurry and wrangle in this body whenever a tax increase is even discussed, even mentioned, even whispered; and yet, here we are ready to roll over and grant a secret board, a secret body, a secret panel anonymous and secret powers to fine U.S. taxpayers if we do not rewrite U.S. law to suit the World Trade Organization. Talk about taxation without representation – and we once fought a revolution over that principle – here it is in spades!

Cross Sectoral Retaliation

"Mr. President, doubt not that the sanctions imposed by the WTO have teeth – and claws. What should be very plain to us here is that the new rules provide for cross-sectoral sanctions should the United States not make the change called for by the GATT dispute resolution panel. Thus, sanctions could be imposed on the telecommunications industry for failure to comply with a GATT ruling on fisheries or automobiles. This possibility of cross-sectoral retaliation is likely to pose enormous difficulties for states and likely to provide perverse incentives for foreign nations to seek sanctions strategies.

"If a state chose not to alter a measure found by the WTO to be GATT-illegal, the U.S. Trade Representative could choose to bring an action against the state in a federal court, even if Congress had chosen to allow the state's measure to remain in effect and to accept trade sanctions on behalf of the entire nation rather than preempt the offending state law. So there we have it. So much for Federalism. So much for state rights. So much for state legislators and Governors. Just leave everything for the WTO and the exalted trade representative to decide.

"Thus, even a blind man can see that this agreement involves a substantial shift of control over each of the fifty states from Congress to the executive branch and to foreign nations.

WTO Pressure Will Persuade Congress to Change U.S. Laws

"Mr. President, the Administration is quick to say that WTO dispute settlement panels will have no power to change U.S. laws and that only Congress can do that. Well, that is true. And every schoolboy and schoolgirl in this country knows that. We already know that.

"The administration seeks to tamp down the concerns of Members of Congress by saying, 'Well, the WTO will not have any power to change U.S. laws.'

"Of course it will not have the power to change U.S. laws. Every history book in the country worthy of the name will tell us that. I learned that 60 years ago. It is nothing new. But the effect of the sanctions that can be applied by the WTO will be strong enough leverage to force U.S. and State laws to be changed to bring them into conformity with the WTO rulings.

"This would put the domestic laws passed by a duly elected U.S. Congress and by elected state and local governments at risk to unelected, unaccountable, unsympathetic, foreign bureaucrats.

Congress May Not Amend the GATT Agreement

"The agreement presented for Senate approval includes provisions that are take it all or leave it. Article 16 provides that a member state cannot have any reservations to the WTO agreement. Swallow it whole. Further, future amendments to the agreement can be made by a majority of the GATT membership, without any further consideration by this body. The U.S. can vote against such amendments, which might be adverse to our interests, be out-voted, and we have no choice but to swallow them whole.

"So, Mr. President, here in my hand is the implementing legislation. You do not see what you get. You do not see what you get. We will have one opportunity tomorrow evening to vote up or down on this implementing legislation. After which, the 124 members of the World Trade Organization can vote to adopt amendments by a three-fourths majority, and in some instances by a two-thirds majority, and whether the United States likes it or not, it can be outvoted, as it is so often outvoted in the United Nations by the same nations that will be in the WTO.

"And so, Senators, once we pass this bill, that is it. We have had it. We have had our chance and that is all. But then these agreements, 2,000 pages of them, can be amended by a three-fourths vote in the WTO. And we can like it or we can

lump it. We can get out of the WTO. But if we remain in, we are going to live by those amendments which are not included in this document.

"So we ought to remember that. It is the last word for us until after the passage of the first 5 years. But this is the last word for now. That is it. Then turn it over to the WTO to interpret and to amend. And how many votes do we have? One. A country of 260 million people with one vote, and 18 of the other members of this WTO will each have a million people or less. And the vote of each member, large or small, will be equal to the vote of the United States. So, you are not buying exactly what you see here. You are seeing the tip of the iceberg in this document of 2,000 pages, but that can be changed and will be – long after we have cast our vote tomorrow evening – changed by the amendment process set forth in the agreement.

U.S. Senate Should Represent States

"The Senate is the only body that represents the States as States, and it is the only body in which every State, from the smallest to the largest, is guaranteed equal representation. It is the only national body in which all members are politically accountable to all the voters in their respective states. We should not vote for this kettle of brew which will diminish the sovereignty of the states we represent.

"The distinguished minority leader has expressed concern and reservations about the provisions of this agreement. He has made attempts to secure an agreement from the President to fix the potential damage and excesses that can be brought by the World Trade Organization, upon the U.S., our laws, and regulations in many fields. I have conferred with Mr. DOLE about this proposed fix – which can only be passed by the next Congress, and I must reluctantly conclude that the World Trade Organization cannot be fixed by the Dole proposal.

New Commission to Monitor WTO Proposal

"Mr. Dole has proposed legislation which would establish a new American Commission to monitor the decisions of the Dispute Settlement Panels in the WTO. If the Commission found over the course of 5 years that the WTO dispute settlement tribunals have violated the appropriate standards of review, any Senator could introduce a privileged resolution calling on the President to withdraw from the World Trade Organization.

"First, Mr. President, how will the Commission get the full record of the Dispute Settlement Bodies when the U.S. is committed in this agreement and committed by virtue of our adoption of this implementing legislation – committed to keeping the deliberations of such bodies 'confidential?'

"The documents, the deliberations, what is said in these panels, will be secret. And even the complaining party and the offending party will not be able to appear before those boards in the decision making process unless they are invited.

"So there is the fundamental question, I say, to those who are looking to the Dole proposition as cover. There is the fundamental question of the secret records and the Star Chamber proceedings that will frustrate the five judges on the commission that the minority leader wants to create.

Trade Laws Supersede All Other Laws

"Now, Mr. President, we have in the specifics of the procedures and standards established by the GATT for the World Trade Organization the elevation of trade as the top priority over all other values. If environmental laws get in the way of trade, they must fall. If consumer protection gets in the way, if standards of innumerable kinds, get in the way of trade, they go. Humane methods of trapping tuna, in order to protect dolphins go out the window. Flipper loses. Rigid pesticide controls which make products more expensive are GATT illegal. Out they go. Child labor laws restricting trade are illegal. Who cares? Only trade matters.

"What happens when our laws are declared a violation of GATT? The Administration would like us to accept the proposition that no U.S. laws are wiped out here, and technically they are not. What will happen is that other member nations, perhaps prodded, or even dominated by one or a group of multinational corporations, will bring a complaint against the U.S. law, as being GATT illegal. The room for pernicious manufactured claims should be obvious to all of us. This puts great pressure on us to change our laws.

The Likelihood of U.S. Withdrawal from the WTO Is Very Unlikely

"Now, the question is what remedy does the proposal of Mr. Dole's offer for this situation.

"After three determinations by the Commission under the standards set forth in the minority leader's agreement a resolution can be introduced with a privileged status, calling for the President to withdraw from the WTO. How hard will that be? Both Houses of Congress must pass the resolution and then be able to muster a two-thirds majority to override a Presidential veto. As my colleagues well know, this is a very difficult undertaking, and we would be faced with all the arguments about how wonderful free trade is on balance, despite a raft of adverse decisions. What is the likelihood that this fix is really a fix? When is a fix not a fix? When it is not a fix. It will be nearly impossible to get out of the organization, and so this high improbability of using the so-called fix should not dominate the vote on the agreement which this implementing legislation approves. If the WTO agreement is flawed, and I say it is very seriously flawed, then we ought not get into it in the first place.

U.S. Congress Will Be Under Control of WTO

"Senators with ambitious ideas about health, environmental, labor, food labeling, or other standards would be well advised to check the standards of international bodies approved by the WTO before bothering to introduce legislation. One could imagine that rubber stamps embossed with the words 'GATT illegal' will become popular in the White House.

The Dole Proposal Is a Giant Fig Leaf

"So, Mr. President, the minority leader's proposal is well-intended, but in effect it is a fig leaf, a giant fig leaf pasted onto a Tyrannosaurus about to ransack its way around decades of statutes and standards on a multitude of policy matters.

"I do not have the agreement just in front of me. I had it. Here it is.

"It is the fix. The Federal commission of five judges will be appointed and they will determine whether or not the proceedings in back of a decision imposing sanctions on the Federal Government or upon State governments or upon municipalities in this country or the local governments – they will decide whether or not the proceedings have been fair, whether or not they have been adopted according to proper procedure. But how are they going to get the materials from the panels, from the disputes board, from the appellate body within the WTO? Those proceedings are to be kept secret and anyone who says anything in those proceedings is to remain anonymous. The statements are to be anonymous.

"How is this Federal commission, this new commission of five judges, to be able to make its decisions when it has no way of reaching into the panel, the secret panel, no way of reaching into the dispute settlement board, no way of reaching into the appellate body in the WTO and extracting those documents, those secret records upon which to make a judgment? This is a fig leaf.

"And then, after 5 years, if the reports that are sent up by the President indicate that some of the decisions have not been fair, any member, they tell us, any member can offer a resolution. And we are promised that those resolutions will be expedited in the procedures in the House and Senate. But that legislation is to be put off until next year. But everybody here knows the barriers that one has to run when it comes to getting a resolution adopted.

"First it has to go to committees. There is no assurance the committee will report it out unless those expedited proceedings mandate such. Then it has to pass both bodies of Congress. Then it has to go to the President's desk and he can veto it. So where does it leave us?

A Lesson from Benjamin Franklin

"Mr. President, Benjamin Franklin told the story of how, upon his seventh birthday, many of his friends gave him several copper pennies. And so off to the shop that sold children's toys he went, and on the way, he heard a friend blowing a whistle which he had bought. Franklin so liked the sound of this whistle that he went into the shop and voluntarily plunked down all of his pennies for a whistle. He then went around his house blowing it proudly, while his brothers and sisters and cousins were all irritated by it and impressed upon him the fact that he had paid too much for his whistle. They told him that he paid four times the value of the whistle and listed to him all of the other things that he could have bought instead. Ben was so vexed that he broke out in tears. The reflection of his folly gave him more chagrin than the whistle gave him pleasure.

"Franklin later said that he had learned a lesson by this experience. The lesson was that he had paid too much for his whistle.

"I say to the distinguished minority leader and others who have concocted this massive fig leaf that they have paid too much for their whistle, and those Senators who are depending upon the covering of that fig leaf to shield them from the ire of the voters come the next election or at some future election will learn that they too, have paid too much for their whistle.

American People Send Congress a Message

"The people on November the 8th sent us a message. They said that they are tired of the arrogance of power that abounds in this city. They told us that they want to be a part of the decisionmaking process. Here we are about to decide on legislation of extreme significance – not only in matters of employment, jobs and basic pocketbook issues that affect every American, but also concerning the bedrock, fundamental sovereignty of our Federal and State Governments. And to add insult to the injury, the decision is being made by a lame duck Congress.

"Why do we not ever get it in this town? An agreement that should consume weeks of debate is going to be implemented with only 20 hours of discussion. This is not just another ordinary trade agreement. What is the rush? If the American people are outraged over the arrogance and the posturing of their elected officials, we have only to look at the present situation to understand why.

The U.S. Budget Must Be Waved to Pass GATT

"We rail against budget deficits. Yet, here we are about to waive the Budget Act to increase the deficit so that the GATT agreement can go forward. In a few months, we will hear the sound and fury of those in this body and the other body crying for a balanced budget amendment: Give us a balanced budget amendment to

the Constitution, they will say, let us all remember the Budget Act waiver vote as we craft our lofty speeches for that coming debate.

"Mr. President, do the American people buy this fig leaf? Do the American people buy this whistle? Let us take a look at a poll conducted by Daniel Yankelovich on November 23 through 27.

American Viewpoints on GATT

"Question: The American public and GATT. Do you favor or oppose passing GATT?

"Fifty-one percent oppose; 33 percent favor; 16 percent not sure.

"Second question: Budget waiver. If GATT were enacted, it would increase the Federal budget deficit. Current law requires revenue increases to offset those losses. The Senate can waive that law with 60 votes. Is it appropriate or inappropriate for Congress to waive the law – that will be done tomorrow night – to waive the law so that GATT can be enacted?

"Sixty-seven percent of the people answered inappropriate; 20 percent answered that it is appropriate; 13 percent, not sure.

"The next question: Some people argue that GATT should be voted upon by the new Congress that was elected in November and not the old Congress which includes about 100 Members who were defeated or are retiring. Who should vote on GATT, the 103d Congress or the 104th?

"Sixty-three percent say the new Congress; 29 percent say the old Congress; 8 percent not sure.

"Fourth question: WTO, World Trade Organization, and U.S. law. Do you think the World Trade Organization should be able to override the laws of member nations, such as the United States?

"Seventy-two percent said no; 17 percent said yes; 11 percent said not sure.

"So here we are on this chart – the American people – here is how they feel about it. They think this question should be put off until the 104th Congress.

"We owe it to the American people to put this decision off until the newly-elected Congress is in place. We owe it to the American people to more carefully study this mammoth bill and ponder its consequences. We ought to heed the people's election message that was spoken to us in the loudest, and most profound way, rather than be so presumptuous as to turn a deaf ear to their collective voices?

The GATT Agreement Will Make the U.S. Cry Uncle

"In closing, Mr. President, let us review for a brief few seconds a few words from the Book of Genesis. God created Adam and Eve and put them in a garden of bliss and happiness – eternal happiness. He instructed them not to eat of the tree of knowledge of good and evil or, he said, 'you will surely die.' But the serpent got to the woman and said, 'You will not surely die.' Adam and Eve ate of the tree of the knowledge of good and evil, and then they saw that they had sinned.

"What did they do? They sewed together fig leaves and created for themselves aprons. And then in the cool of the day, they heard the voice of the Lord God walking in the garden, and they hid among other trees of the garden. And God said: 'Adam, where art thou? Adam, where are thou?'

"Mr. President, the people who are reflected on this chart are saying, 'Senator, where art thou? Where are thou on the budget waiver? Where art thou?'

"And in the days to come, they will say, 'Where wert thou? Where were you? Where were you when you voted to make Uncle Sam cry uncle to GATT? Where were you when this monstrous bill was passed after only 20 hours of debate without an amendment? Where were you when this new world organization was given the power to force changes in State and Federal law? Where were you on this legislation that will shift millions of additional jobs overseas to the developing countries, that will cause multinationals to go overseas more and more and more? Where were you when you had the opportunity to say no? Where were you when you voted to increase the budget deficit by \$14.5 billion? Where were you, Senator?' Where were you? Where were you? And you, and you, and you?

"Mr. President, my vote will be to delay this matter until next year. How do I do it? I vote against the budget waiver, and thus sustain this point of order. It is a legitimate point of order, and it is in accordance with the agreement that we reached at the budget summit in 1990 when we said that such decreases in revenues should be offset.

"I will make the point of order and do make it now, that the pending bill, H.R. 5110 violates section 23 of House Concurrent Resolution 218, the concurrent resolution on the budget for fiscal year 1996." (*Congressional Record*, November 30, 1994, pp. S15104-S15107.)

The Ambiguities and Drawbacks of the GATT Agreement

Senator Hollings submitted the following letter into the *Congressional Record*:

"Mr. President, I ask unanimous consent that a letter from Public Citizen to Ambassador Kantor be printed in the RECORD.

"There being no objection, the letter was ordered to be printed in the RECORD, as follows:

August 3, 1994.

Hon. MICHAEL KANTOR

600 17th Street N.W.,

Washington, DC

"DEAR AMBASSADOR KANTOR:

Critics and supporters of the Uruguay Round GATT agreements agree that they are far-reaching in their impact. The decision about whether the agreements should be approved in their present form and whether the United States should enter the World Trade Organization (WTO) should be made carefully and cautiously, after full and informed debate and discussion among the American people.

"As the negotiator and prime supporter of the trade pact, you wish to emphasize what you believe to be the positive features of the agreements and the WTO. As a government official, however, you have an obligation also to honestly and reasonably report on – and at least acknowledge – ambiguities or drawbacks contained in the agreements you are advocating.

"As the debate over the WTO and the new GATT has proceeded, you and your deputies have increasingly slighted this public official duty. Your response to detailed criticisms or carefully expressed concerns has been to dismiss the critics as ill-informed or to answer them with misleading statements, distortions and deceptions.

"The purpose of this letter is to rebut, for the public record, a number of your long list of erroneous statements, and to urge you to reconsider your approach to the WTO-GATT debate and to give the American people a decent interval of time to digest the WTO-GATT proposal.

Erroneous Statement Number One

"Erroneous Statement Number 1: The World Trade Organization is not much different than the existing GATT, thus fears about sovereignty are misplaced.

"Correction: The existing GATT is an international business contract between nations (like NAFTA) who are called contracting parties. Congressional approval of the Uruguay Round would make the United States a member of a permanent

new global trade agency, the World Trade Organization (WTO). The WTO would: maintain an international 'legal personality' akin to the United Nations; possess ongoing rule making capacity; and operate a binding dispute resolution system whose decisions would be enforced with trade sanctions and fines.

"The creation of a new standing organization has great significance. As a contractual arrangement rather than an independent actor, GATT has owed its political legitimacy to the consent of the GATT contracting parties. GATT has been cautious in taking actions without express authorization, and, because signatories to GATT did not cede any power to a standing organization, has operated almost exclusively by consensus.

"A vote for the Uruguay Round would dramatically alter both the political and legal status of the GATT/WTO. Reflecting the WTO's legal status and enhanced political authority, important decisions under the WTO regime would be made by one-country, one-vote voting.

"Unlike GATT, the World Trade Organization includes an affirmative international obligation to 'ensure the conformity of [a country's] laws, regulations and administrative procedures' with the WTO rules. In its April 1994 report on U.S. laws that allegedly violate the WTO mandate, the European Union lays out the U.S. obligation clearly: 'The comprehensive multilateral dispute settlement mechanism which has been agreed upon in the framework of the World Trade Organization will...oblige [countries] to bring their domestic legislation into conformity with all of the Uruguay Round agreements.

Erroneous Statement Number Two

"Erroneous Statement Number 2: The WTO will operate by consensus; '[in] fact, Article IX of the WTO Agreement codifies what was merely a custom in the GATT. It makes consensus the governing principle for WTO for decision-making.

"Correction: The Administration has regularly cited only a portion of the relevant WTO agreement provision on decision-making. Administration officials refer to the first sentence of Article IX-1 of the Agreement Establishing the WTO. 'The WTO shall continue the practice of decision-making by consensus followed under the GATT....' But Administration officials consistently fail, in Congressional testimony and otherwise, to cite the next sentence, which reads, 'Except as otherwise provided, where a decision cannot be arrived at by consensus, the matter at issue shall be decided by voting – each member of the WTO shall have one vote.'

"Important decisions that would be made by majority and supermajority voting, instead of consensus, include: decisions to amend the WTO rules; interpretations of the WTO rules; decisions to allow additional countries to become WTO Members; and decisions to start new negotiations and implement the results of

such negotiations. Decisions to adopt the ruling of WTO dispute resolution panels would be taken by reverse consensus, requiring all countries to agree not to adopt a panel ruling.

"Indeed, rather than consensus decisionmaking being the rule under the proposed WTO, it is the specifically cited exception, and is only specifically cited in the WTO Agreement in the context of amendments to five specific WTO or GATT articles.

Erroneous Statement Number Three

"Erroneous Statement Number 3: Under the WTO, no substantive change in the rights and obligations of the United States can occur under any of its provisions unless the United States agrees to it.

"Correction: USTR's claim that no decisions affecting U.S. 'rights and obligations' under the WTO can be taken without its agreement is clearly undermined by the provisions on initiating and implementing new negotiations by a majority vote of the Ministerial Conference. However, even under Article X of the Agreement establishing the WTO, which provides special procedures for amending provisions that would alter a WTO Member's rights and obligations, the decision about whether a proposed amendment does alter such rights and obligations is taken by a three-fourths vote. If a three-fourths majority agrees that such rights and obligations are not affected, then amendments can be voted by a two-thirds majority with the results binding on all Members. Even if three-fourths of the WTO Members decide that a proposed amendment does alter rights and obligations and the amendment is adopted by a two-thirds vote and only applies to the members voting for it, a three-fourths vote of the WTO Members can decide whether the Members who do not accept the amendment shall still be allowed to remain Members.

Erroneous Statement No. Four

"Erroneous Statement Number 4: The existing GATT provides for majority voting, thus the Uruguay Round is 'much more protective of U.S. sovereignty' by moving decision-making from majority to supermajority voting.

"Correction: Because the International Trade Organization (ITO) proposed in 1947 was not approved by the U.S. Senate, GATT has never had the political legitimacy to activate its voting rules. GATT virtually never operated by any voting. The last GATT vote was in 1959. In fact, as USTR regularly emphasizes in other contexts, GATT decisions are made by consensus. Thus, the real change with the establishment of the WTO is the switch from consensus decision-making to one-nation, one-vote voting.

"This change effectively eliminates the veto the United States has enjoyed as a sovereignty safeguard under the existing GATT. Under the WTO, the United States would not maintain the effective veto now provided by consensus decision-making in dispute resolution and other decisions under the current GATT.

"In the context of dispute resolution, the United States would specifically lose a veto which it has had available under the existing GATT and used to stop the 1991 tuna-dolphin ruling. The WTO's proposed dispute settlement process would be unique among international organizations in requiring consensus to stop action rather than consensus to commit a sovereign nation to international action. The rulings of the WTO's dispute resolution tribunals would be automatically adopted 60 days after publication, unless every WTO Member, including the victorious plaintiff nation, opposes adoption. (An internal appeal is provided with a similar negative veto which would be required to stop adoption for its ruling.) Similarly, if the United States refused or failed to repeal or revise a law held to be an illegal trade barrier, after a set number of days, the WTO would automatically authorize trade sanctions unless every WTO Member including the complaining nation opposed sanctions.

"In non-dispute resolution contexts, there is no veto because there is no veto because there is no consensus decision-making either, except for five WTO or GATT articles specifically listed under Article X-2 of the Agreement Establishing the WTO for which consensus is required to approve an amendment.

"In sum, not only does the United States lose the veto it now has under the current requirement of consensus to adopt a panel ruling and consensus to authorize sanctions, it would now (after an unfavorable WTO tribunal ruling) have to build a unanimous consensus just to stop WTO action against it.

Erroneous Statement Number Five

"Erroneous Statement Number 5: Congress maintains full control over the passage, maintenance and repeal of U.S. laws under the World Trade Organization's regime. 'A WTO dispute settlement panel recommendation has no effect on U.S. law.'

"Correction: While it is true that only Congress can establish, alter or repeal a federal law, WTO tribunals would have the authority to determine the WTO-legality of U.S. laws and to exert enormous pressure on the United States to alter laws found 'WTO-illegal.' The WTO could force Congress into making a cruel choice: either alter or repeal a law determined to be WTO-illegal or face perpetual trade sanctions against any U.S. industry the winning country chooses. Moreover, the threat of such challenges and the ensuring no-win dilemma would have a chilling effect on Congress, deterring the legislature from passing laws that are claimed by opponents in the United States and in other WTO nations to be WTO-

illegal; and the threats would also have a chilling effect on proposals by both agencies and citizen groups.

Erroneous Statement Number Six

"Erroneous Statement Number 6: Countries won't follow through in using WTO-authorized sanctions against the United States because the United States is the largest trading nation in the world and other countries would be reluctant to run the risk of closing themselves off from U.S. markets.

"Correction: Logically, the administration cannot have it both ways. The WTO cannot be a big stick to open markets when wielded by the United States, yet a limp reed when held by others over the United States. Either no WTO Members – including the United States – will use the powerful new dispute resolution mechanism, or the United States and other countries will use it.

"The WTO – with its automatic imposition of perpetual fines or perpetual cross-sector retaliatory sanctions in cases where a domestic law that if found to be WTO-illegal is not altered or eliminated – would give foreign countries enormous leverage over the United States. Moreover, unlike NAFTA, the WTO member countries would include two major trading powers: Japan and the European Union. Both have threatened trade measures against the United States when displeased by U.S. trade behavior before, as has Canada. Under the WTO, these countries would be authorized to take such actions against the United States with full approval and support of a global agency and its Members.

"Finally, it is peculiarly reprehensible to state, as the Administration prepared to enter the United States into a powerful new international organization with a vast array of attendant obligations, that the United States does not intend to respect its international commitments.

Erroneous Statement Number Seven

"Erroneous Statement Number 7: WTO dispute settlement panels do not have the power to make 'decisions' or impose solutions. Panels will issue reports containing their views on the dispute and a recommendation to the dispute parties.

"Correction: The actual language of the Dispute Settlement Understanding paints quite a different picture. It reads: 'Within sixty days of issuance of a panel report to the Members, the report shall be adopted at a DSB (Dispute Settlement Body) meeting unless one of the parties to the dispute formally notifies the DSB of its decision to appeal or the DSB decides by consensus not to adopt the report.' Appeals are limited to a review of the application of GATT rules to the facts and must be completed in 60 days. 'An appellate report shall be adopted by the DSB and unconditionally accepted by the parties to the dispute unless the DSB decides by consensus not to adopt the appellate report within thirty days following its

issuance to the Members.' "Where a Panel or Appellate Body concludes that a measure is inconsistent with a covered agreement, it shall recommend that the Member concerned bring the measure into conformity with that Agreement'. 'Compensation and the suspension of concessions or other obligations are temporary measures available in the event that the recommendations and rulings are not implemented within a reasonable period of time.'

"In summary, once a three-person tribunal rules and its decision is approved by the internal WTO appellate body (if an appeal is even taken), the decision is final, unless all members of the WTO arrive at a consensus to reject the tribunal decision. Then a country must change its law or face sanctions.

Erroneous Statement Number Eight

"Erroneous Statement Number 8: The United States can maintain any food safety or environmental standard as long as it is based on science.

"Correction: 'Based on science' is only one of a series of tests in the Uruguay Round food standards that U.S. food laws must pass to avoid being labelled an unfair trade barrier that must be eliminated.³⁸ In fact, even supporters of the Uruguay Round have admitted to the National Journal that many U.S. laws would not meet some of the proposed WTO requirements.

"The most worrisome tests are those specifying the means a country may use to obtain even a WTO-legal objective. Two such 'means' tests are the 'least trade restrictive' means test and a rule prohibiting countries from distinguishing products on the basis of how they were produced. (For instance, protecting dolphins by distinguishing between fishing techniques that are dolphin safe and those that kill large numbers of dolphins.)

"Under the last trade restrictive rule, a U.S. law would fail to pass WTO muster – no matter how acceptable the law's goal might be in WTO terms – if the means used to accomplish that goal is not the least trade restrictive. Congress would have to repeal or alter any law found to have failed this test by a WTO tribunal, or the United States would face perpetual fines or trade sanctions. Indeed, in our February 1993 meeting, you acknowledged your own concern about the 'least trade restrictive' test, which you said you were able to limit somewhat in NAFTA.

"As for the prohibition on distinction based on 'process standards,' in early 1993, you expressed dismay to a large gathering of environmental and consumer representatives about the application of this rule to the U.S. Marine Mammal Protection Act in the successful 1991 Mexican challenge of the U.S. law. As applied in the GATT tuna-dolphin cases, this rule required the United States to treat tuna caught with methods that result in high dolphin-kill rates and that caught with dolphin-safe methods the same. Applied in another context, it could require the United States to treat goods made with ozone-depleting processes and those

made with other methods in the same fashion if the goods were physically the same.

"The least trade restrictive means test and process-distinction tests have been the basis of the two recent GATT challenges to U.S. environmental laws, and that was before those rules were specifically enumerated in the test, as they are in the Uruguay Round proposal. In the tuna-dolphin challenge, the United States lost the case because it distinguished on the basis of process – not because of any purported failure to base the law on science. In the European Union challenge to the U.S. CAFE and gas guzzler fuel efficiency standards (a challenge which the United States has been widely predicted to lose), the challenging parties agreed that the U.S. goal of fuel efficiency is allowable and do not question the scientific justification of the goal or the scientific efficacy of the United States means to achieve it; the dispute is over the political issue of how the goal should be achieved, including whether it is through minimum automobile miles-per-gallon standards or a carbon tax.

"Finally, as an aside, it is important to note that the 'based on science' test itself is neither as simple or objective as you imply. Application of the text will be made by the secret WTO tribunals, whose members are trade experts, not scientists or even lawyers or officials with a background in consumer, environmental or related matters. This method itself, especially the secrecy, is quite an unscientific way to proceed.

Erroneous Statement Number Nine

"Erroneous Statement Number 9: The Uruguay Round rules do not require downward harmonization.

"Correction: While harmonization is required in both the food and technical standards chapters, it is not specifically labelled as upwards or downwards harmonization. However, the rules that make up those chapters will result in downward harmonization of strong U.S. standards.

"First, under the WTO's two standards chapters, a domestic law can be found to be a trade barrier because it is stronger than international standards, but not because it is too weak. Only laws that are stronger than named international standards will be subject to a battery of tests in order to establish that they are not illegal trade barriers that must be eliminated. Meanwhile, with the exception of prison labor, no country's law can be attacked as WTO-illegal because it provides too weak protection to the environment or to consumer or worker safety and health.

"Second, both the food and technical standards texts require countries to base their standards on specified international standards. Standards issued by several of the international standard-setting bodies are weaker than current U.S. domestic

laws and regulations require. For technical standards – all non-food standards such as product safety or environmental rules 'where technical regulations are required and relevant international standards exist or their completion is imminent. Members shall use them, or the relevant parts of them, as a basis for their technical regulations, except when such international standards * * * would be an ineffective or inappropriate means for the fulfillment of the legitimate objectives pursued, for instance because of fundamental climatic or geographical factors or fundamental technological problems.' In the food area, domestic standards also must be 'based on' the named international food standards of the Codex Alimentarius Commission. According to the General Accounting Office (GAO), the United States established more health protective pesticide standards in 66 percent of the cases where the comparison could be made.

Erroneous Statement Number Ten

"Erroneous Statement Number 10: It is unlikely that there will be many challenges brought under the Uruguay Round agreements against U.S. Laws.

"Correction: Although the United States has often been a plaintiff in past GATT challenges, that will change under the WTO. The Uruguay Round would expand trade disciplines beyond the traditional trade matters in which the United States is situated to be a plaintiff and into non-tariff issues – namely the many standards setting environmental, health, labor and other requirements for products sold in the United States. In these areas, the United States is likely to be a defendant, because of its more advanced health and safety protections. Moreover, the change to binding GATT dispute resolution (that would require a country to change laws found to be GATT-illegal, or accept sanctions or pay fines) from a system with largely advisory dispute resolution (a panel suggested a course of action that a country had to agree to) will in itself stimulate more cases. The long lists published in 1994 by the European Union, Canada, and Japan of laws they and their motivated domestic corporate interests consider to violate the new rules illustrate the magnitude of the risk to domestic U.S. federal and state laws and standards.

Erroneous Statement Number Eleven

"Erroneous Statement Number 11: It is very unlikely that there will be many challenges brought under the Uruguay Round agreements against state laws.

"Correction: In addition to the general incentives the Uruguay Round presents to foreign countries to challenge many U.S. laws, the proposed new substantive trade rules – such as those requiring consistency of level of risk – provide many new tools for challenges of state laws merely because they are different than federal laws. While the European Union, Canada and Japan have published lists of laws they consider to violate GATT in previous years, this year's reports, which are

based on the proposed new Uruguay Round rules, contain extensive new lists of state environmental, health, tax and other laws.

"The European Union's 'Report on United States Barriers to Trade and Investment, 1994' goes so far as to attack the U.S. federal list system, and the diversity of rules and standards it encourages, as a trade barrier in itself. 'There are more than 2,700 State and municipal authorities in the United States which require particular safety certifications for products sold or installed within their jurisdiction.' the EU report complains. And it alleges, 'Even if, in general, not intentionally discriminatory, the complexity of U.S. regulatory systems in this domain [technical regulations regarding consumer, health, safety and environmental protection] can represent a very important structural impediment to market access' (emphasis in original).

Erroneous Statement Number Twelve

"Erroneous Statement Number 12: GATT rules will fully protect the right of any state to impose stringent health or environmental standards, including those more protective than federal standards.

"Correction: GATT's two standards chapters both directly threaten strong state environmental and consumer laws. For instance, the Technical Barriers chapter requires domestic standards that are complete or near completion unless there are fundamental climatic, geographic or technological reasons not to use them. That a state believes such international standards do not provide sufficient health or environmental protection is not a WTO-legitimate justification for departing from the international standard, much less a federal standard. The food standards contained in the Sanitary and Phytosanitary chapter specifically require domestic laws to avoid distinctions in the level of protection provided. 'With the objective of achieving consistency in the application of the concept of appropriate level of sanitary and phytosanitary protection...each member shall avoid arbitrary or unjustifiable distinctions in the levels it considers to be appropriate in different situations...'. Although these rules also apply to federal law, as noted by the Attorneys General, state laws are especially at risk because of the very difference between federal and state standards that is the cornerstone of federalism. The WTO does not provide a federalism exception for such differences, nor does it limit the definitions of 'arbitrary' or 'unjustifiable' to allow differences between federal and state decision-makers facing the same data and risks in making different political decisions about how much risk to accept.

"In our nation's history, the very absence of an international uniformity straitjacket (and the allowance for state diversity, within the limits of not arbitrarily burdening interstate commerce) has freed our country to lead the world rather than follow a lower common denominator.

Erroneous Statement Number Thirteen

"Erroneous Statement Number 13: The unilateral trade measures of Section 301 remain usable under GATT.

"Correction: As virtually all commentators outside of the U.S. Trade Representative's office agree, the unilateral action provisions of Section 301 and its hybrids will not survive the WTO's Dispute Resolution Article 23. The Congressional Research Service's American Legal Division issued an opinion memo to Representative Cardiss Collins about Section 301 being effectively gutted by Article 23's ban on 'unilateralism.' Representative Richard Gephardt's office, having admitted that Section 301 would be unenforceable under the new rules for most uses, has tried unsuccessfully to find alternatives to trade sanctions to enforce some sort of unilateral trade measure. With regard to Section 301 and other U.S. unilateral measures, the government of Japan has written, 'The United States' attitude of pursuing market opening in bilateral negotiations backed by the threat of sanctions is not compatible with the multilateral trade system of the GATT/WTO.'⁵⁵ The European Union has also objected to the U.S. use of Section 301, as well as other unilateral trade measures, including those contained in environmental laws.

"With the debate over the WTO and the new GATT clouded by these and other erroneous USTR statements, it is difficult for citizens, the media or Representatives and Senators to make a reasoned assessment of the WTO-GATT proposals.

"It is not too late to provide Congress and the American people with a full assessment of the impact on our democracy and standards of domestic justice posed by the WTO and the new GATT. Deferring the Congressional consideration of the WTO and the new GATT until next year would give the American democratic process a change to work properly.

"Sincerely,

Ralph Nader, Lori Wallach.

(Congressional Record, November 30, 1994, S15142-S15144.)

WTO Infringes on U.S. and State Sovereignty

Senator Stevens stated:

"... I cannot support the bill that is before the Senate.

"I have three basic reasons. I believe that the creation of the World Trade Organization, as contained in the agreement and as would be approved by this bill, infringes upon our sovereignty, not only of our Nation but of our individual States.

"Second, I believe that the procedure under which we are considering this bill once again violates the Constitution of the United States. Mr. President, I am compelled to say I think that in the last election the public was telling us that we have a Constitution we should live up to. We raise our hands and say we will support the Constitution. Then we, once again, bring a trade agreement before this body under a procedure which is unconstitutional – the fast track procedure.

"The third reason I cannot support this agreement is that it requires a waiver of the Budget Act. I do not believe we should vote to waive the Budget Act in order to approve the General Agreement on Tariffs and Trade. Particularly not with our current Federal budget deficit.

The Treaty Making Provisions of the U.S. Constitution

"Mr. President... I find it very difficult, to come before the Senate and oppose the approval of a trade agreement because of the procedures that have been followed. I did that with regard to the North American Free Trade Agreement last November. During the debate on the NAFTA agreement, I raised on the Senate floor two constitutional points of order, two issues that affect the rights of States and particularly the rights of small States.

"The first issue related to the Senate's constitutional duty under article II, section 2, clause 2 of the Constitution to 'advise and consent' to treaties negotiated by the President. Once again, we have here before us now an executive agreement. It is an executive agreement merely because the President designated it as such, notwithstanding the fact that it is clearly one of the items that should have been within the treaty clause of the Constitution. The President does have some discretion to choose the type of instrument he will use, but I do believe he must respect the confines of the instrument he chooses as he puts before the Congress a particular new type of foreign agreement for approval by the Congress.

"The Constitution specifically refers to treaties, compacts, and agreements as some of the choices that are available to the President. But there are some parameters, I feel, that should be confining upon any President as he exercises that discretion to choose the type of agreement he will use.

"This agreement clearly is a treaty, in my judgment. We have a distinguished representative of Harvard Law School come before the Commerce Committee who set forth why it is that. I regret to say he has recanted his position at the last

minute, as he started to count votes because of the circumstance that he does support GATT, but he opposes the process.

Congress Should Stand by the Constitution

"I believe that we should stand by the Constitution, rather than just count votes, and the GATT Agreement should be submitted to the Senate as a treaty because of the World Trade Organization concept that is created by it. The WTO concept deals with issues of sovereignty. It deals with the powers of government that particularly affect this country and our system of government. I believe that the GATT Agreement should be submitted to the Senate as a treaty because the World Trade Organization Council had the dispute resolution mechanism diminish the sovereignty of the individual states. I do not understand why we should create a new World Trade Organization that will take part of the sovereignty – diminish the sovereignty of our States and our Nation – through a trade agreement and not a treaty.

The Fast Track Mechanism Is Unconstitutional

"The second constitutional issue is one that I raised last November – the fast track procedure which prohibits amendments to the implementing legislation is unconstitutional. The fast track procedure applies to the bill that is before us now. It limits the amount of debate on the bill and prohibits amendments to it. I believe that is unconstitutional. I spelled out to the Senate, last November, this same issue. There is no reason for me to raise it again, because I know I will lose again, because the same people are here who voted on it before. Maybe another Congress at a later date will realize that we ought to start protecting the Constitution.

GATT Is a Revenue Measure

"Members of the Senate have the Constitutional right under article I, section 7 to offer amendments to revenue bills. It says:

"All bills for raising revenue shall originate in the House of Representatives; but the Senate may propose or concur with amendments as on other bills.'

"GATT is a revenue measure. It originated in the House of Representatives. Yet, I am prohibited now by this procedure from offering amendments to protect my State. And the last time I presented an amendment during the NAFTA debate, the Chair ruled that my amendment was out of order and the Chair's ruling was sustained.

"Critics of my amendment point to article 1, section 5, clause 2 of the Constitution which provides that 'Each House may determine the Rules of its proceedings', arguing that the Members of the Senate agreed to limit our own rights to offer amendments. I disagree with that argument. The Constitution

annotated – published by the Congressional Research Service and sold to the public as an official Government document – says:

"In the exercise of their constitutional power to determine their rules of proceedings, the House of Congress may not ignore constitutional restraints or violate fundamental rights, and there should be a reasonable relation between the mode or method to be attained.'

"In *Powell versus McCormick*, the Supreme Court held that the qualifications of Members are enumerated in the Constitution and neither House of Congress may impose additional qualifications through its own rules.

An Abuse of Implementing Legislation Process

"When we first contemplated the fast track procedure we believed we were restricting our rights for very narrow purposes. Section 151(b)(1)(C) of the Trade Act of 1974 provides that the implementing bill will only contain provisions 'necessary and appropriate' to implement the trade agreement. The implementing legislation we are currently considering contains at least 29 sections that are not essential to implementing the trade agreement. They are only needed to meet the Budget Act and not the trade agreement. The inclusion of nonessential provisions in a trade agreement that is not amendable – even to strike the offending provisions – is an abuse of process. This is the type of abuse of process that led the Senate to adopt the Byrd Rule regarding the consideration of reconciliation bills. The Byrd Rule states that if the budget effect is incidental to the nonbudgetary impact then the provision is non germane and subject to a motion to strike. I believe that there should be a similar type of rule which would, at the very least, allow Members to strike provisions which are not 'necessary and appropriate' to implement the trade agreement.

The Sovereignty of States is Denied

"It is unfortunate, I think, that we can get to the point where, under a fast track procedure, we deny the rights of representatives of small States. And they are the people that are being hurt, Mr. President, by this bill. I mention in particular the double E savings bond provision that is in the revenue portion of this bill.

"The bill before us includes not only provisions required to implement the trade agreement but also provisions to comply with the Budget Act. I do not believe that we ever contemplated we would have Budget Act provisions in a bill that came before us under the fast track that we would not be able to amend.

The Savings Bond Provision

"One of these provisions is the double E savings bond provision which is going to penalize people who use deductions from their salaries to buy savings bonds. It

raises a very small amount, about \$122 million over 5 years, compared to the billions that are required to offset the revenue loss from the tariff reductions in this bill. This provision was put in here – I say this respectfully – by the members of the Finance Committee, and the Ways and Means Committee. A very small portion of the Congress made this provision a part of the GATT deal. And, the people who are going to pay for it are the people who purchase savings bonds, quite often for their retirement or children's education. Many of these individuals purchase the savings bonds through a deduction plan from their paychecks. The \$122 million savings that is included in this bill will come about because someone redeeming a savings bond could forfeit up to six months of interest. Currently interest is credited every month, but under this provision the Treasury Department will exercise its administrative discretion to credit interest every six months instead. This is wrong and this provision should be subject to amendment here on the floor.

A Clear Violation of the Constitution

"I believe that denying us the right to offer amendments to deal with these types of revenue provisions clearly violates the Constitution.

The Spectrum Auction Concept

"There is one other issue I am constrained to mention. I was the author of the spectrum auction concept. For years I argued that the people who were acquiring new licenses for spectrum, through the FCC, should not get them through a lottery, but they should bid for them. The licenses had extreme value.

"People laughed at that. The first time that CBO looked at this issue they said that my bill would probably raise about \$250 million. It is now in the budget for about \$14 billion. And part of the provisions we put in there provided for a pioneer preference provision to give preference to people who develop new technologies but did not have the financing capability to utilize those technologies because they would be competing against the enormous financial entities of telecommunications industry in this country for those licenses.

"As a consequence of the fast track procedure which prohibits amendments, included in this bill is a pioneer preference provision that says, 'Oh, by the way, those people have to pay about 85 percent of the average paid by other people in spectrum auctions.' Which, Mr. President, was not what was intended at all. Strangely, we have people holding the spectrum under the pioneer preference auctions that are part of the largest financial organizations in the country. They are not small people who developed new technologies that need a boost to get licenses for less than cost or – as a matter of fact, we wanted them to get them free. But under the circumstances of this bill, I find again a revenue provision that is included which I cannot, even as the author of spectrum/auction concept, offer an

amendment to knock it out of the implementing legislation. The pioneer preference provision should not be in this bill at all.

"I have the feeling that those of us from the small States are the ones who are really harmed by this bill.

GATT Will Adversely Affect Alaska and Sixteen Other States

"In addition to these constitutional issues, I have been concerned that the GATT will adversely affect Alaska and 16 other States that use the unitary tax method. If the Uruguay round agreement is adopted, Alaska could be in jeopardy of losing approximately \$200 million in revenue annually from its unitary tax on oil producers. The other States that rely on this method of taxation include Arizona, California, Colorado, Connecticut, the District of Columbia, Illinois, Indiana, Iowa, Kansas, Massachusetts, New Hampshire, New Jersey, New York, Ohio, Rhode Island and West Virginia.

"The Supreme Court of the United States recently upheld the right of Alaska and other States to use a unitary tax. However, the European Commission has already identified in its 1994 'Report on United States Barriers to Trade and Investment' the unitary tax as an unfair trade practice....

GATT Will Bust the Federal Budget

"Mr. Stevens. My third reason for opposing the GATT is because it would bust the Federal budget. The Congressional Budget Office recently estimated that the agreement would contribute to the Federal budget deficit \$1.6 billion in the first 5 years and up to an additional \$16.5 over the next 5 years. With a Federal debt of \$4.6 trillion and \$202 billion budget deficit this year, I cannot in good conscience support this agreement.

"I say, in sheer frustration, that I do not know where this Congress is going. Why can't we live up to the Constitution? Why can't we read the Constitution again, and proceed according to the Constitution?

"Again I state my good friend in the Chair will recall the discussion we had during the debate on NAFTA. I am still waiting for the hearing, from the Finance Committee, to give us a chance to determine the future of fast track concepts. I for one will oppose fast tracks as long as I am in the Senate, until we get an understanding of how we are going to protect the Constitution as we consider bills under the fast track procedure. (*Congressional Record*, November 30, 1994, pp. S15151-S15154.)

The U.S. Senate Votes to Implement the New GATT Agreement

On December 1, 1994, the Senate resumed debate on HR5110 – the GATT Agreement and eventually passed the budget waiver and the implementing legislation. The vote on the latter was 76-24.

[Rollcall Vote No. 329 Leg.]

YEAS – 76

Akaka	Glenn	Mikulski
Bennett	Gorton	Mitchell
Biden	Graham	Mosley-Braun
Bingaman	Gramm	Moynihan
Bond	Grassley	Murkowski
Boxer	Gregg	Murray
Bradley	Harkin	Nickles
Breaux	Hatch	Nunn
Bumpers	Hatfield	Packwood
Chafee	Hutchisonn	Pell
Coats	Inouye	Pressler
Cochran	Johnston	Pryor
Cohen	Kassenbaum	Riegle
Conrad	Kennedy	Robb
Coverdell	Kerrey	Rockefeller
DAMMED	Cairo	Rosh
Danforth	Kohl	Sarbanes
Daschle	Lautenberg	Sasser
DeConcini	Levin	Simon

Dodd	Lieberman	Simpson
Dole	Lott	Specter
Domenici	Lugar	Wallop
Durenberger	Mack	Warner
Faircloth	Mathews	Wofford
Feinstein	McCain	
Ford	McConnell	

NAYS – 24

Baucus	Exon	Leahy
Brown	Feingold	Metzenbaum
Bryan	Heflin	Reid
Burns	Helms	Shelby
Byrd	Hollings	Smith
Campbell	Inhofe	Stevens
Craig	Jeffords	Thurmond
Dorgan	Kempthorne	Wellstone

The GATT Agreement Is a Giant Trap for the Nations of the Earth

The debate over the most important trade legislation in American history lasted just 24 hours and the Congress was not able to amend HR5110 or add reservations to it.

Americans were not the only ones opposed to GATT. In 1993, Yves Messarovitch, the Economics Editor of *Le Figaro* in Paris interviewed Sir James Goldsmith, a Member of the European Parliament and leader of the new parliamentary group, L'Europe des Nations concerning, "The New Utopia: GATT and Global Free Trade." It was a fascinating presentation of the major fallacies that underlie so-called free trade – one of the biggest misnomers of the 20th century. The interview was published in a book entitled, *The Trap*, a fitting title and forewarning to the American people. In reality, the GATT Agreement is a global

trap – not only for the U.S., but for all nations who become a member of it. The interview follows:

You are opposed to global free trade and therefore to GATT. Why?

"Global free trade has become a sacred principle of modern economic theory, a sort of generally accepted moral dogma. That is why it is so difficult to persuade politicians and economists to reassess its effects on a world economy which is changing radically.

"The ultimate objective of global free trade is to create a worldwide market in products, services, capital and labour. Its instrument to achieve this is GATT, the General Agreement on Tariffs and Trade.

"I believe that GATT and the theories on which it is based are flawed. If it is implemented, it will impoverish and destabilize the industrialized world while at the same time cruelly ravaging the third world.

Remind us of the economic theory on which GATT is based?

"The principal theoretician of free trade was David Ricardo, a British economist of the early nineteenth century. He believed in two interrelated concepts: specialization and comparative advantage. According to Ricardo, each nation should specialize in those activities in which it excels, so that it can have the greatest advantage relative to other countries. Thus, a nation should narrow its focus of activity, abandoning certain industries and developing those in which it has the largest comparative advantage. As a result, international trade would grow as nations export their surpluses and import the products that they no longer manufacture, efficiency and productivity would increase in line with economies of scale and prosperity would be enhanced. But these ideas are not valid in today's world.

Why?

"During the past few years, 4 billion people have suddenly entered the world economy. They include the populations of China, India, Vietnam, Bangladesh, and the countries that were part of the Soviet empire, among others. These populations are growing fast; in thirty-five years, that 4 billion is forecast to expand to over 6.5 billion. These nations have very high levels of unemployment and those people who do find jobs offer their labour for a tiny fraction of the pay earned by workers in the developed world. For example, forty-seven Vietnamese or forty-seven Filipinos can be employed for the cost of one person in a developed country, such as France.

"Until recently, these 4 billion people were separated from our economy by their political systems, primarily communist or socialist, and because of a lack of

technology and of capital. Today all that has changed. Their political systems have been transformed, technology can be transferred instantaneously anywhere in the world on a microchip, and capital is free to be invested wherever the anticipated yields are highest.

"The principle of global free trade is that anything can be manufactured anywhere in the world to be sold anywhere else. That means that these new entrants into the world economy are in direct competition with the workforces of developed countries. They have become part of the same global labour market. Our economies, therefore, will be subjected to a completely new type of competition. For example, take two enterprises, one in the developed world and one in Vietnam. Both make an identical product destined to be sold in the same market, say the USA, Great Britain or France; both can use identical technology; both have access to the same pool of international capital. The only difference is that the Vietnamese enterprise can employ forty-seven people where the French enterprise can employ only one. You don't have to be a genius to understand who will be the winner in such a contest.

"In most developed nations, the cost of an average manufacturing company of paying its workforce is an amount equal to between 25 per cent and 30 per cent of sales. If such a company decides to maintain in its home country only its head office and sales force, while transferring its production to a low-cost area, it will save about 20 per cent of sales volume. Thus, a company with sales of 500 million dollars every year. If, on the other hand, it decides to maintain its production at home, the enterprise will be unable to compete with low-cost imports and will perish.

"It must surely be a mistake to adopt an economic policy which makes you rich if you eliminate your national workforce and transfer production abroad, and which bankrupts you if you continue to employ your own people.....

What are your thoughts about the World Trade Organization?

"That is the organization which is supposed to replace GATT, regulate international trade, and lead us to global economic integration. It is yet another international bureaucracy whose functionaries will be largely autonomous. They report to over 120 nations and therefore, in practice, to nobody. Each nation will have one vote out of 120. Thus, America and every European nation will be handing over ultimate control of its economy to an unelected, uncontrolled, group of international bureaucrats....

But why do third world nations themselves support global free trade?

"We must distinguish between the populations on the one hand and their ruling elites on the other. It is the elites who are in favour of global free trade. It is they who will be enriched. In India there have been demonstrations of up to one million

people opposing the destruction of their rural communities, their culture and their traditions. In the Philippines several hundred thousand farmers protested against GATT because it would destroy their system of agriculture. (Sir James Goldsmith, *The Trap*, New York: Carroll & Graf Publishers, Inc., 1994 edition. Original version published in Fixot, Paris, 1993, pp. 25-51.)

Part VII Ideological Manipulation of the Intellectual Community

19. Tax-Exempt Foundations – Their Impact on the Educational System of America

Between 1600 and 1790 the American people in the individual colonies were struggling against not only the elements in America but the repressive principles of a world which was based upon civil law and the divine right of kings. By 1790, the colonists had successfully transformed their years of searching and struggles into what had become known as the "American tradition," a world view based upon natural rights. Professor Clarence Carson defined this ideology as follows:

"We can discern almost from the beginnings of [the] American settlement the making of an American tradition. This emerging tradition was one of individualism, voluntarism, constitutionalism, representative government, government by law, equality before the law, the recognition of a moral order in the universe, natural rights, and personal independence. It was, in essence, a liberal tradition, despite the semantic difficulties which the use of the phrase introduces. It was liberal in that it was animated by liberty as an ideal, embraced means consonant with liberty, and limited that authority over men which might intrude upon their liberty." (*The American Tradition*, Irvington-on-Hudson, New York: The Foundation for Economic Education, Inc., 1970, p. 26.)

A Reverence for the Principles of the Declaration of Independence and the U.S. Constitution

From 1790 until 1930, the majority of educational texts on government, law, history, economics, etc., sought to maintain the above principles. These principles were, in essence, codified in the U.S. Constitution and provided America with a limited constitutional republic and a set of laws which guaranteed individual freedom for the people and preserved their property rights. They also provided free enterprise practices in the market arena. A study of the textbooks used in the high schools and colleges reveal a basic reverence for the principles contained in the Declaration of Independence and the U.S. Constitution. The writings of John Locke, William Blackstone, Thomas Jefferson, James Madison, etc., left a profound mark on the concept of freedom or natural rights in the world. This unique American heritage was generally adhered to by the majority of the American people from 1800 to 1930. Nevertheless, there were various individuals and groups in this lengthy time period who sought to lodge all power in the Federal Government and to eradicate the hard-won liberties of the American people. These relatively small groups of individuals, often called "progressives," were proponents of a worldview based upon secularism.

The American Tradition Is Abandoned

By the middle of the 1930s, the principles of the Constitution were under severe attack not only in the courts but in the educational texts of America. Lawyers, college professors in history and law and educators were undermining the theories of limited constitutional government and advocating that America adopt the principles of collectivism, democratic socialism, and a new form of "internationalism." A major transformation of the U.S. Constitution had already occurred when the 16th and 17th Amendments were adopted. With the establishment of the Federal Reserve System, America was being prepared for a new form of government patterned after the alien philosophies of Europe. Textbooks began appearing which debunked the founding fathers, the U.S. Constitution, and basic American principles. In the middle of the 1930s, the Supreme Court began interpreting the U.S. Constitution to give unlimited power to the Federal Government. The United States abandoned its former precepts of neutrality and non-intervention and became involved in two world wars. Although the League of Nations was rejected on constitutional principles, the United Nations was overwhelmingly adopted. America had been transformed by the proponents of the secular worldview. The American tradition had been abandoned not only by the academic world but by the legal profession as well.

Schools Are Promoting Alien Philosophies

By the early 1950s, there were many people both in and out of government who felt that something was seriously wrong. It was charged that the resources of America's vast educational system had been misappropriated to teach concepts which were destructive of the entire fabric of the American constitutional system. It was also felt the schools were being utilized to promote the acceptance of economic ideas which are diametrically opposed to the open society of the American free enterprise system.

Three Foundations Promoting Secular Studies

The question automatically arose, "Who is responsible for all of this?" A preliminary inquiry by a concerned citizens group in Chicago indicated that the main thrust was coming from several private foundations which had spent hundreds of millions of dollars in tax-exempt funds to promote textbooks and teachings which were "socialistic" in domestic affairs and "one-world" in foreign affairs. The three principle offenders were said to be the Carnegie Endowment for International Peace, the Rockefeller Foundation and the Ford Foundation.

A House Committee to Investigate Tax Exempt Foundations

So much public indignation had been generated by 1952, that the 82nd Congress passed House Resolution 561 to set up a special "Select Committee to Investigate Tax-Exempt Foundations and Comparable Organizations." Many

Congressmen considered this to be one of the most important investigations in the nation's history. The Committee was instructed to determine whether or not any of the foundations had been "using their resources for un-American and subversive activities or for purposes not in the interest of the tradition of the United States." (House Report No. 2514, January 1, 1953, p. 2.)

The Cox Committee

The Committee was named after its chairman and became known as the "Cox Committee," but unfortunately it did not accomplish a great deal. The time factor was rather limited and the unexpected death of the chairman resulted in a very superficial inquiry being conducted. Nevertheless, it did establish that there were signs of strong un-American influence on the decision-making level of several leading foundations. However, the impact of this discovery was virtually nullified in the Committee's final report by giving considerable weight to the testimony of the foundation officers who had insisted that the un-American elements on their boards were not of any particular significance.

Congressman Reece Urges Further Studies

Congressman B. Carroll Reece was a member of the Cox Committee and was not at all satisfied with the final report. He added an appendage which urged that "if a more comprehensive study is desired, the inquiry might be continued by the 83rd Congress...." (*Ibid.*, p. 14.)

Congressman Reece felt that the hasty and cursory inquiry of the Cox Committee left the nation without the answers it needed. He therefore introduced House Resolution 217, which was passed by a vote of 183 to 109 on July 27, 1953. The resolution provided that:

"The Committee is authorized and directed to conduct a full and complete investigation...to determine which of such foundations and organizations are using their resources for un-American and subversive activities; for political purposes; propaganda, or attempts to influence legislation." (House Report No. 2681, December 16, 1954, p. 1.)

The members of the new committee were: B. Carroll Reece of Tennessee, Chairman; Jessie P. Wolcott of Michigan; "Angier L. Goodwin of Massachusetts; Wayne L. Hays of Ohio; and Gracie Pfost of Idaho.

It is important to note that three of these five individuals had voted against the Reece resolution in order to prevent this committee from coming into existence.

New Committee Stifled by Lack of Funds

The resolution directed the new committee to prepare a report by January 3, 1955. On August 1, 1953, the committee was granted \$50,000 with the agreement that additional funds would be forthcoming after the first of the next year. Committee counsel was obtained on September 1, 1953 and the compilation of a staff began on September 5th. However, it was soon apparent that the promised funds would not be forthcoming. The committee was stifled by a lack of sufficient funds.

Between September 15, 1953 and April 29, 1954, the Reece Committee operated, in essence, under the direction of its research director, Norman Dodd.

Cox Committee Files Disappear

It is interesting to note that after the committee was organized the members wanted to study the data collected by the Cox Committee, especially on the unAmerican aspects of the foundations. For some mysterious reason the entire file dealing with the activities in this area had disappeared.

The Dodd Report

On April 29, 1954, Norman Dodd prepared a preliminary report for presentation to the members of the Reece Committee. This report was exploratory in character and outlined the pattern of inquiry which the research staff would be pursuing. In this report, Norman Dodd stated:

"...Studies were made by the [committee] staff of the size, scope, form and functions of the Federal Government for the period 1903-1953....

"These original studies...disclosed that during the four years, 1933-1936, a change took place which was so drastic as to constitute a 'revolution.' They also indicated conclusively that the responsibility for the economic welfare of the American people had been transferred heavily to the Executive Branch of the Federal Government; that a corresponding change in education had taken place from an impetus outside of the local community, and that this 'revolution' had occurred without violence and with the full consent of an overwhelming majority of the electorate.

"In seeking to explain this unprecedented phenomenon, subsequent studies pursued by the staff clearly showed it could not have occurred peacefully, or with the consent of the majority, unless education in the United States had been prepared in advance to endorse it....

"After consultation with counsel, I directed the staff to explore Foundation practices, educational procedures, and the operations of the Executive branch of

the Federal Government since 1903 for reasonable evidence of a purposeful relationship between them.

"Its ensuing studies disclosed such a relationship and that it had existed continuously since the beginning of this fifty-year period. In addition, these studies seem to give evidence of a response to our involvement in international affairs. Likewise, they seemed to reveal that grants had been made by Foundations (chiefly by Carnegie and Rockefeller) which were used to further this purpose by:

"Directing education in the United States toward an international viewpoint and discrediting the traditions to which it [formerly] had been dedicated.

"Training individuals and servicing agencies to render advice to the Executive branch of the Federal Government.

"Decreasing the dependency of education upon the resources of the local community and freeing it from many of the natural safeguards inherent in this American tradition.

"Changing both school and college curricula to the point where they sometimes denied the principles underlying the American way of life.

"Financing experiments designed to determine the most effective means by which education could be pressed into service of a political nature...." (The Dodd Report, New Canaan, Connecticut: The Long House, Inc., 1954, pp. 6-7.) (See also, Committee Hearings.)

Powerful Organizations Seeking to Undermine American Liberties

Mr. Dodd next tells us how he expanded the research activities of the Reece Committee to include a number of prominent organizations and the tentative conclusions he reached.

"I directed the staff to make a study of the development of American education since the turn of the century and of the trends in techniques of teaching and of development of curricula since that time. As a result, it became quite evident that this study would have to be enlarged to include the accessory agencies to which these developments and trends had been traced.

"The work of the staff was then expanded to include an investigation of such agencies as:

"The American Council of Learned Societies, the National Research Council, the Social Science Research Council, the American Council on Education, the National Education Association, the League for Industrial Democracy, the

Progressive Education Association, the American Historical Association, John Dewey Society, and the Anti-Defamation League....

"The broad study which called our attention to the activities of these organizations has revealed not only their support by Foundations, but has disclosed a degree of cooperation between them which they have referred to as 'an interlock,' thus indicating a concentration of influence and power. By this phrase they indicate they are bound by a common interest rather than a dependency upon a single source for capital funds. It is difficult to study their relationship without confirming this. Likewise, it is difficult to avoid the feeling that their common interest has led them to cooperate closely with one another and this common interest lies in the planning and control of certain aspects of American life through a combination of the Federal Government and education.

"This may explain why the Foundations have played such an active role in the promotion of the social sciences, why they have favored so strongly the employment of social scientists by the Federal Government and why they seem to have used their influence to transform education into an instrument for social change....

Groups Favor Centralized Government in America

"In summary, our study of these entities and their relationship to each other seems to warrant the inference that they constitute a highly efficient, functioning whole. Its product is apparently an educational curriculum designed to indoctrinate the American student from matriculation to the consummation of his education. It contrasts sharply with the freedom of the individual as the cornerstone of our social structure. For this freedom, it seems to substitute the group, the will of the majority, and a centralized power to enforce this will – presumably in the interests of all. Its development and production seems to have been largely the work of those organizations engaged in research, such as the Social Science Research Council and the National Research Council.

"The demand for their product seems to come from such strong and sizable aggregations of interest as the National Education Association and the American Council on Education, whose authorities seem to see in it the means by which education can render a national service. They make frequent reference to this service as synonymous with 'the cause of education' and tend to criticize strongly anyone who dares to doubt the validity of their conclusions.

"Its promotion appears to have been managed by such organizations as the Progressive Education Association, the American Historical Association, the League for Industrial Democracy, the John Dewey Society, and the Anti-Defamation League. Supplementing their efforts were others, such as: the Parent-Teacher Association, the National Council of Churches, and the Committee for Economic Development, each of which has played some part in adjusting the

minds of American citizens to the idea of planning and to the marked changes which have taken place in 'the public interest....'

"From our studies, it appears that the overall administration of this functioning whole and the careful selection of its personnel seem to have the peculiar interest of the American Council of Learned Societies. It is interesting to note that, by legislative action recently, another entity has been brought into being known as National Science Foundation, whose purpose is to develop a national policy with respect to science. Its additional purpose is to serve our Government, in an advisory capacity in connection with the huge appropriations now being made for research in the interest of effective controls. Evidence exists of close cooperation between privately endowed Foundations, the agencies through which they have operated, and the educational institutions through which they have been accustomed to make grants for research. This process may contribute to an undesirable degree of concentrated power.

U.S. Government Finances Studies by Liberal Organizations

"It is also interesting to note that by comparison with funds for research provided by Foundations, those now flowing from our Government are so large that they dwarf Foundation contributions. This promises to be true for some time to come and indicates that Foundations may extend their influence over a wider area than in the past.

"The result of the development and operation of the network in which Foundations have played such a significant role seems to have provided this country with what is tantamount to a national system of education under the tight control of organizations and persons little known to the American public. Its operations and ideas are so complex as to be beyond public understanding or control. It also seems to have resulted in an educational product which can be traced to research of a predominantly empirical character in the inexact or social sciences.

"In these fields the specialists, more often than not, seem to have been concerned with the production of empirical data and with its application. Principles and their truth or falsity seem to have concerned them very little.

Zeal for a Radically New Social Order in America

"In what appears from our studies to have been zeal for a radically new social order in the United States, many of these social science specialist apparently gave little thought to either the opinions or the warnings of those who were convinced that a wholesale acceptance of knowledge acquired almost entirely by empirical methods would result in a deterioration of moral standards and a disrespect for principles. Even past experience which indicated that such an approach to the problems of society could lead to tyranny, appears to have been disregarded.

Social Scientists Believe They Can Solve America's Problems

"For these reasons, it has been difficult for us to dismiss the suspicion that, latent in the minds of many of the social scientists has lain the belief that, given sufficient authority and enough funds, human behavior can be controlled, and that this control can be exercised without risk to either ethical principles or spiritual values and that, therefore, the solution to all social problems could be entrusted to them.

"In the light of this suspicion and the evidence which supports it, it has been difficult to avoid the conclusion that social scientists of the persuasion I have been discussing have been accepted by the Foundations, Government, and education as though their claims were true – this in the face of the fact that their validity has been disputed by men well trained in these same disciplines.

The Social Engineer Emerges in America

"In spite of this dispute within his own ranks, the social scientist is gradually becoming dignified by the title "Social Engineer." This title implies that the objective viewpoint of the pure scientist is about to become obsolete in favor of techniques of control. It also suggests that our traditional concept of freedom as the function of natural and constitutional law has already been abandoned by the 'social engineer' and brings to mind our native fear of controls – however well intended.

"In spite of this, it seems strange that Foundations made no reference in their reports to the consequences to be expected from a new science of society founded upon empiricism and undisciplined by either a set of principles or proved experiments. Apparently they were content to operate on the theory that they would produce usable data for others to employ and rely upon them to account for the effects....

"The general and the specific studies pursued by the staff during the past six months lead one to the tentative conclusion that within the social science division of education, the Foundations has have neglected 'the public interest' to a severe degree...." (*Ibid.*, pp. 8, 10-13.)

Ford Foundation Is Dedicated to Problem Solving on a World Scale

Mr. Dodd concluded his report with these words:

"Finally, I suggest that the Committee give special consideration to the Ford Foundation... It is without precedent as to size, and it is the first Foundation to dedicate itself openly to 'problem solving' on a world scale.

"In a sense, Ford appears to be capitalizing on developments which took place long before it was founded, and which have enabled it to take advantage of:

"the wholesale dedication of education to a social purpose –

"the need to defend this dedication against criticism –

"the need to indoctrinate adults along these lines –

"the acceptance by the Executive branch of the Federal Government of responsibility for planning of the Executive branch of the Federal Government – and

"the seeming indispensability of control over human behavior...." (*Ibid.*, p. 14.)

Reece Committee Is Considered a Threat to Large Foundations

The effect of Dodd's preliminary report was electrifying. Within a matter of hours, the Establishment media deluged the nation with stories that the investigation was futile and should be terminated. It soon became obvious why the Reece Committee was considered such a threat. Congressman Reece later described the situation in these words:

"The evidence that had been gathered by the staff pointed to one simple underlying situation, namely, that the major foundations had for a long time been exercising powerful, although sometimes indirect political influence in both domestic and foreign policy, predominantly toward the left – to say nothing of the support by the foundations of the Institute of Pacific Relations which led the movement to turn China over to the Communists and which was admittedly Communist dominated.

"The doubts and reservations concerning the validity of the complaints against the large foundations were largely dispelled by the almost hysterical reaction of the foundations to the summary presented to the Committee by the Committee staff on the opening day of the hearings.

"The excitement bordered on panic; as was observed by the demonstrations through the public relations channels of the large foundations and this convinced me, and others of the American public, judging from the letters received...that the general picture which had taken shape was not very far from the truth." (Speech before National Press Club Luncheon, February 23, 1955, p. 3.)

The Reece Committee Investigation Is Stopped

After nineteen days of hearings, powerful political machinery behind the scenes was deployed at the Capitol to stop the Reece Committee completely. The last

hearing was held on July 9, 1954. The hearings were cancelled partly because of the abrasive and uncontrollable actions of Congressman Wayne Hays, who later admitted to Norman Dodd that Major General Wilton B. Persons from the White House had been up to see him. "He wanted me to cooperate in dusting up this investigation," Hays stated. (Interview with Norman Dodd conducted by Michael L. Chadwick, November 12-13, 1977, Keene, Virginia.)

Large Tax Exempt Foundations Were Undermining Traditional Values and Principles

Even though the hearings were discontinued, a sufficient quantity of evidence was accumulated by the Committee's staff to clearly demonstrate that the major foundations had been spending hundreds of millions of dollars to divest the United States of her traditional system of values and replace them with socialist goals designed to prepare America for provincial status in a world state or community of nations.

Dodd Meets the Head of the Ford Foundation

While Norman Dodd was directing the research activities of the Reece Committee and before he presented the "Dodd Report" in committee hearings, two events transpired which greatly aided in their study of foundations. Dodd recalls these events as follows:

"This brings me to two experiences which I will describe to you. The first was my response to an invitation during November, 1953, from President Roman Gaither of the Ford Foundation, to meet in his office in New York. Upon arriving there, I was greeted with the following:

"'Mr. Dodd, we invited to you come because we thought that perhaps, off the record, you would be kind enough to tell us why the Congress is interested in the operations of foundations such as ourselves.' Before I could think of how best to reply, he volunteered this: 'Mr. Dodd, we operate here under directives...which emanate from the White House. Would you like to know what the substance of their directives is?'

"My answer was, 'Yes, Mr. Gaither, I would like very much to know.'

"Whereupon he said, 'The substance of the directives under which we operate is that we shall use our grant-making power to alter life in the United States so that we can be comfortably merged with the Soviet Union.' Needless to say, I nearly fell off the chair....

"I said, 'Mr. Gaither, legally you are entitled to use your grant-making power for this purpose but I do not think you are entitled to withhold this information

from the American people to whom you are beholden for your tax exemption. So why do you not tell the American people what you have just told me?

"His answer was: 'Mr. Dodd, we would not think of doing that.'

Dodd Meets with Head of the Carnegie Endowment for Peace

"The next experience involved the acceptance of an invitation from the Carnegie Endowment for International Peace. This invitation came in response to a letter which I had written the Endowment asking a few pertinent questions. I arrived at the office of Dr. Joseph Johnson who was then president of the Endowment. He was the successor to Alger Hiss who had been sentenced to five years for perjury because he had denied under oath that he was an agent of the Soviet Union. Present at this meeting with Johnson were two vice-presidents, relatively new men, and legal counsel, a partner in the law firm of Sullivan and Cromwell.

"After amenities, Dr. Johnson opened the conversation this way: 'Mr. Dodd, we have received your letter. We can answer that question but it will be a great deal of trouble. The reason for its being a great deal of trouble is that with the ratification by the Senate of the United Nations treaty, our task was done. And so we bundled up everything in the way of records and sent them to the warehouse and adopted a policy of constructing a building across the street from the United Nations which served as a facility for the benefit of those many organizations which, from this point on, would be bound to follow the activities of the United Nations. So we have a counter suggestion which is as follows: If you can spare a member of your staff and send him to New York for two weeks, we'll provide a room in our library and also make available to him the minute books of the corporation from its inception.'

Dodd Accepts Invitation to Examine Minute Books

"My first reaction was that he had lost his mind. I had some suspicion what these minute books might well contain. But there was no objection from their counsel and there seemed to be no disagreement on the part of the vice-presidents. But all of them were relatively young. My guess was that none of them had ever read the minutes themselves. As a result I accepted the invitation and did send a member of my staff to New York. She later brought back to me on dictaphone belts what she had dictated from the minutes of the board. This information came as a shock to all of us.

The Effect of War on People

"In 1908 the trustees had raised this question, 'Is there any way known to man more effective than war, assuming that you wish to alter the life of an entire people?' They had discussed this question academically and in a scholarly fashion

for almost a year and came up with the conclusion that it was the most effective means known to man, assuming that you want to begin concentrating power in government and abandon the dispersion of authority contemplated by the Constitution.

Involving America in War

"They then raised Question No. 2: 'How do we involve the United States in such a war? This was in 1909. I doubt if there was any subject more removed from the minds of people in this country at that time than the possibility of involvement in war. There were intermittent wars, you will remember, in the Balkans but my guess is that not many people in the country knew where the Balkans were. The trustees answered the question this way: 'We must control the diplomatic machinery of the United States.'

Securing Control of the State Department

"That brings up Question No. 3, which is: 'How do we secure control of the diplomatic machinery of the United States?' And the answer comes up, 'We must get control of the State Department.'

"That tied in with prior information our Committee had uncovered indicating that the hand of the Carnegie Endowment for International Peace had already become a powerful policy-making force inside the State Department.

"Finally, in 1917, we did get in a war – World War I. These Trustees then had the brashness to congratulate themselves on the wisdom and validity of their original decision. The impact of our participation in World War I immediately indicated its capacity to alter our national life. The Trustees even went so far as to dispatch a telegram to President Wilson, pressuring him to see to it that the war did not end too quickly.

Gaining Control Over U.S. Education

"Finally the war was over. The Trustees then took up the problem of preventing – as they put it – a reversion of life in the United States to what it was prior to 1914. They came to the conclusion that to gain that end they must somehow get control of education in the United States. They realized this was a prodigious piece of work, so they tried to obtain the assistance of the Rockefeller Foundation. They then divided the task in parts, giving to the Rockefeller Foundation the responsibility of altering education as it pertains to domestic subjects but Carnegie retained the task of altering our education as it pertained to subjects bearing on our international relationships. They then decided together that the best way to achieve their purpose was by an alteration in the teaching of American history. So they approached three of the most prominent historians.

Discrediting the Founding Fathers

"The Trustees then decided that it was necessary for them to build their own stable of historians. They therefore approached the Guggenheim Foundation which specializes in the awarding of fellowships and said, 'When we discover a likely young person who is studying and looking forward to becoming a teacher of history, we will take him to London to pursue his studies.' So they took twenty or so to London and there they were briefed in what was expected of them. This group then returned and eventually became the most active influence in the American Historical Society.

"This coincides with the appearance (which perhaps you will remember) of book after book, the contents of which cast aspersion on the early leaders of the country and relegated their ideas to the realm of myth.

A Large Grant to American Historical Association

"Finally, toward the end of the 1920s, the minutes showed that the Endowment granted the American Historical Society \$400,000 for the sole purpose of rendering a report as to what the future of this country should be. This appears in seven volumes. The seventh volume summarizes the contents of the other six and ends on this note: 'The future belongs to collectivism, administered with characteristic American humanitarianism and efficiency.

"With this information as a background, our staff prepared to launch into a full-scale investigation of what these major foundations had been doing with their vast resources of tax-exempt money.

"I was hopeful that all the Committee itself would have to do would be to invite the officers of the Carnegie Endowment to appear before them and answer some pertinent questions. Because of our access to the minute books, we would know if their answers were true. However, it did not turn out to be that simple. Our staff reports were based more on research into the known activities and literature of the foundation than the hearings themselves." (Interview with Norman Dodd conducted by Michael L. Chadwick on November 12-13, 1977 in Keene, Va.)

Large Foundations Play a Major Role in Altering America's Educational System

The Reece Committee was terminated before it was able to fully probe the overall extent or effect of the large tax-exempt foundations on altering the educational system in America. Although unable to complete its full mission, the Committee staff, acting under the direction of Norman Dodd, was able to amass a great deal of pertinent information which demonstrated the role foundations had played in altering America's educational system from one of individualism and self-reliance and limited constitutional government to one of collectivism and

reliance upon the Federal Government. The following is a brief summary of the more important findings of the Reece Committee:

"The country is faced with a rapidly increasing birth-rate of foundations. The compelling motivation behind this rapid increase in numbers is tax planning rather than 'charity.' The possibility exists that a large part of American industry may eventually come into the hands of foundations. This may perpetuate control of individual enterprises in a way not contemplated by existing legislation, in the hands of closed groups, perhaps controlled in turn by families. Because of the tax exemption granted them, and because they must be dedicated to public purposes, the foundations are public trusts, administering funds of which the public is the equitable owner. However, under the present law there is little implementation of this responsibility to the general welfare; the foundations administer their capital and income with the widest freedom, bordering at times on irresponsibility. Wide freedom is highly desirable, as long as the public dedication is faithfully followed. But as will be observed later, the present laws do not compel such performance.

"The increasing number of foundations presents another problem. The Internal Revenue Service is not staffed to adequately scrutinize the propriety and legality of the work of this ever-enlarging multitude of foundations.

"Foundations are clearly desirable when operating in the natural sciences and when making direct donations to religious, educational, scientific, and other institutional donees. However, when their activities spread into the field of the so-called 'social sciences' or into other areas in which our basic moral, social, economic, and governmental principles can be vitally affected, the public should be alerted to these activities and be made aware of the impact of foundation influence on our accepted way of life.

The Enormous Power of the Large Foundations

"The power of the individual large foundation is enormous. It can exercise various forms of patronage which carry with them elements of thought control. It can exert immense influence on educational institutions, upon the educational processes, and upon its purse. It can materially predetermine the development of social and political concepts and courses of action through the process of granting and withholding foundation awards upon a selective basis, and by designing and promulgating projects which propel researchers in selected directions. It can play a powerful part in the determination of academic opinion, and, through this thought leadership, materially influence public opinion.

The Power to Influence National Policy

"This power to influence national policy is amplified tremendously when foundations act in concert. There is such a concentration of foundation power in the United States, operating in the social sciences and education. It consists

basically of a group of major foundations, representing a gigantic aggregate of capital and income. There is no conclusive evidence that this interlock, this concentration of power, having some of the characteristics of an intellectual cartel, came into being as the result of an over-all, conscious plan. Nevertheless, it exists. It operates in part through certain intermediary organizations supported by the foundations. It has ramifications in almost every phase of research and education, in communications and even in government. Such a concentration of power is highly undesirable, whether the net result of its operations is benign or not.

"Because foundation funds are public funds, the trustees of these organizations must conscientiously exercise the highest degree of fiduciary responsibility. Under the system of operation common to most large foundations this large fiduciary responsibility has been largely abdicated, and in two ways. first, in fact if not in theory, the trustees have all too frequently passed solely upon general plans and left the detailed administration of donations (and the consequent selection of projects and grantees) to professional employees. Second, these trustees have all too often delegated much of their authority and function to intermediary organizations.

Foundations Exercise Practical Control over Research in Social Sciences

"A professional class of administrators of foundation funds has emerged, intent upon creating and maintaining personal prestige and independence of action, and upon preserving its position and emoluments. This informal 'guild' has already fallen into many of the vices of a bureaucratic system, involving vast opportunities for selective patronage, preference and privilege. It has already come to exercise a very extensive, practical control over most research in the social sciences, much of our educational process, and a good part of government administration in these and related fields. The aggregate thought-control power of this foundation and foundation-supported bureaucracy can hardly be exaggerated. A system has thus arisen (without its significance being realized by foundation trustees) which gives enormous power to a relatively small group of individuals, having at their virtual command, huge sums in public trust funds. It is a system which is antipathical to American principles.

The Interlocking Power of the Foundations

"The far-reaching power of the large foundations and of the interlock, has so influenced the press, the radio, and even the government that it has become extremely difficult for objective criticism of foundation practices to get into news channels without having first been distorted, slanted, discredited, and at times ridiculed. Nothing short of an unhampered Congressional investigation could hope to bring out the vital facts; and the pressure against Congressional investigation has been almost incredible. As indicated by their arrogance in dealing with this committee, the major foundations and their associated intermediary organizations

have entrenched themselves behind a totality of power which presumes to place them beyond serious criticism and attack.

"Research in the social sciences plays a key part in the evolution of our society. Such research is now almost wholly in the control of the professional employees of the large foundations and their obedient satellites. Even the great sums allotted by the Federal Government for social science research have come into the virtual control of this professional group.

"This power team has promoted a great excess of empirical research, as contrasted with theoretical research. It has promoted what has been called an irresponsible 'fact finding mania.' It is true that a balanced empirical approach is essential to sound investigation. But it is equally true that if it is not sufficiently balanced and guided by the theoretical approach, it leads all too frequently to what has been termed 'scientism' or fake science, seriously endangering our society upon subsequent general acceptance as 'scientific' fact. It is not the part of Congress to dictate methods of research, but an alertness by foundation trustees to the dangers of supporting unbalanced and unscientific research is clearly indicated.

Promotion of Moral Relativism

"Associated with the excessive support of the empirical method, the concentration of power has tended to support the dangerous 'cultural lag' theory and to promote 'moral relativity', to the detriment of our basic moral, religious and government principles. It has tended to support the concept of 'social engineering' – that 'social scientist' and they alone are capable of guiding us into better ways of living and improved or substituted fundamental principles of action.

"Accompanying these directions in research grants, the concentration has shown a distinct tendency to favor political opinions to the left. These foundations and their intermediaries engage extensively in political activity, not in the form of direct support of political candidates or political parties, but in the conscious promotion of carefully calculated political concepts. The qualitative and quantitative restrictions of the Federal law are wholly inadequate to prevent this mis-use of public trust funds.

Educators Are Agents for Social Change

"The impact of foundation money upon education has been very heavy, largely tending to promote uniformity in approach and method, tending to induce the educator to become an agent for social change and a propagandist for the development of our society in the direction of some form of collectivism. Foundations have supported text books (and books intended for inclusion in collateral reading lists) which are destructive of our basic governmental and social principles and highly critical of some of our cherished institutions.

Large Foundations' Influence of Foreign Policy in America

"In the international field, foundations, and an interlock among some of them and certain intermediary organizations, have exercised a strong effect upon our foreign policy and upon public education in things international. This has been accomplished by vast propaganda, by supplying executives and advisers to government and by controlling much research in this area through the power of the purse. The net result of these combined efforts has been to promote 'internationalism' in a particular sense – a form directed toward 'world government' and a derogation of American 'nationalism.' Foundations have supported a conscious distortion of history, propagandized blindly for the United Nations as the hope of the world, supported acceptance, and leaned toward a generally 'leftist' approach to international problems.

Large Foundations Support Undermining of American Values

"With several tragically outstanding exceptions, such as *The Institute of Pacific Relations*, foundations have not directly supported organizations which, in turn, operated to support Communism. However, some of the larger foundations have directly supported 'subversion' in the true meaning of that term, namely, the process of undermining some of our virtually protective concepts and principles. They have actively supported attacks upon our social and governmental system and financed the promotion of socialism and collectivist ideas." (Tax-Exempt Foundations – Report of the Special Committee to Investigate Tax-Exempt Foundations and Comparable Organizations, House of Representatives, Eighty-third Congress, Second Session, December 16, 1954, House Report No. 2681, pp. 16-19.)

The foregoing summary is a highlight of the documented findings of the Reece Committee. Every educator in America interested in understanding the secular worldview and its effect upon America's educational system should obtain a copy of the hearings and final report of the Special Committee to Investigate Tax-Exempt Foundations and Comparable Organizations of the 83rd Congress, Second Session.

Foundations Exercise Control Over Academic Life

The foundations have exerted control over the academic life in America second to none. J. Fred Rippey, former professor of American history at the University of Chicago, in a letter dated August 4, 1951, to Congressman E. E. Cox stated:

"At present and for years to come, scholars in our universities will not be able to do much research on their own because of high prices and heavy taxes. The recipients of these tax-free subsidies from the foundations will therefore have great advantages that will be denied the rest of the university staffs. The favored few will get the promotions and rise to prominence. The others will tend to sink into

obscurity and have little influence in the promotion of ideas and culture.... (Tax-Exempt Foundations – Report of The Special Committee to Investigate Tax-Exempt Foundations and Comparable Organizations, House of Representatives, Eighty-Third Congress, Second Session, December 16, 1954, House Report No. 2681, p. 37.)

Foundations Support Big Government

In 1961, Texas Representative Wright Patman was chairman of the House Select Committee on Small Business. As chairman he began a study of the questionable practice of the large foundations. Several reports were subsequently issued. This investigation echoed the conclusions of the Reece Committee. In one committee report the intertwining connection of the large foundations and government is mentioned:

"...Being content to support what one ex-foundation president wryly described as 'the leftovers from the Government's table,' foundations thereby contribute to the trend of reliance on big government – a reliance which most of the trustees associated with the foundations are among the first and loudest to condemn. And even in their benevolence they often imitate what they decry in Government subsidies – 'strings.' Increasingly, educators are finding that foundation dollars are tied to an angle. Support for pure research is becoming rarer. As Frederick M. Raubinger, New Jersey State Commissioner of Education, once observed: 'It seems to some of us that in some instances the announcement of a grant for experimentation is made simultaneously with the announcement of the results of the experiment.'

"G.K. Hodenfield, Associated Press education writer, after surveying leading educators across the country, found that similar complaints were felt, and sometimes voiced, regarding many projects sponsored by the Ford Foundation. It is alleged that, before experiments in educational television were well underway, Alvin C. Eurich of the Ford Foundation was announcing their results: '...students learn as well or better by instruction over television as they do in traditional classroom work.' According to newspaper reports, the American Association of School Administrators has warned its members against permitting big grants to shape philosophies, a warning that perhaps was triggered in part by the fact that one foundation refused to award a grant to a state university's department of economics which had taken a strong position favoring free enterprise. This, said foundation trustees, was a 'biased' position. An official of the American Association of School Administrators has stated his belief that one large foundation 'holds a veto power over the appointment of the president of at least half the private colleges and universities in the United States,' which, even if it is a grossly alarmist position, still leaves ample room for concern. If nothing else, it is significant that the arrogant manner in which some of the foundations conduct their business gives the impression of tremendous undercurrents of control...." (Tax-

Exempt Foundations and Charitable Trusts: Their Impact on Our Economy, Fourth Installment, 88th Congress, Washington, D.C., Government Printing Office, December 21, 1966, pp. 9-10.)

Large Foundations Dominate the Colleges and Universities of America

It would appear that the lessons and discoveries of the Reece Committee have been totally ignored. By 1966 the large foundations were not only continuing to dominate the colleges and universities of America, but were exercising a controlling power over them.

In January 1932, Ludwig von Mises candidly stated:

"It is true that the majority of mankind are not able to follow difficult trains of thought, and that no schooling will help those who can hardly grasp the most simple proposition to understand complicated ones. But just because they cannot think for themselves the masses follow the lead of the people we call educated. Once convince these, and the game is won." (Preface, *Socialism – An Economic and Sociological Analysis*, Jonathan Cape, Thirty Bedford Square, London, 1974 edition, p. 23.)

Large Foundations Concentrate on Influencing Educators

The trustees and administrators of the large foundations, as well as others, apparently understand this principle and have concentrated their efforts on influencing the worldviews of those whom we call "educated." They have successfully converted the intellectual community of not only America, but other nations as well, to collectivism, socialism, secularism, finance capitalism, monopoly capitalism, etc. It would appear that these intellectuals have in turn educated the masses of people not only in the United States, but throughout the entire world, in theories designed to prepare mankind for life in a global society administered by the elite of the world.

20. Movement Toward a Global Society – The Role of Interdependent Education

One of the first public organizations in the United States to begin actively promoting some form of global governance or community of nations was the Carnegie Endowment for International Peace in New York. The Endowment first pushed the League of Nations' machinery. When the United States Senate rejected the League, the Endowment began trying to influence public opinion in the direction of what has been termed "the international mind."

Media officials, government representatives, professors and teachers, businessmen and others were encouraged to begin thinking internationally. Solutions to major problems could only be solved, according to the Endowment, in

the international arena. International bodies which superseded national sovereignty were needed to respond to the "new age."

The Birth of Global Education

The Old World order was no longer adequate for the 20th Century. It would be necessary to develop a "new world order." Soon other organizations, foundations and individuals began deluging the public with the need for global awareness and interdependence. A new discipline was born. It was called "global education."

The advocates of international government were aware that the public at large were not ready for governmental decisions to be made at the global level when the League of Nations was rejected following World War I. Between World War I and II, a steady stream of literature was therefore hurled at the public, etc., to convince them of the necessity of relinquishing national political and economic sovereignty to global bodies. That they were successful is evident by the public acceptance of the United Nations' system following World War II.

Prominent Organizations Promote Internationalism

A multitude of organizations were responsible for this new public acceptance of international bodies. The most prominent of them included the Carnegie and Rockefeller foundations, the Council of Foreign Relations, Foreign Policy Association, Church Peace Union, Federal Council of Churches (later renamed National Council of Churches), National Council for Prevention of War, etc.

Today there is a multitude of organizations, both public and private, advocating the continued abandonment of the concept of national political and economic sovereignty. These organizations and institutions favor "international public policy" and a world political system.

American Education and Global Interdependence

Although there are numerous books, pamphlets, articles, etc., advocating that great emphasis be placed on global interdependence, one article which was published by the Aspen Institute in 1976 presented an excellent summary of the goals of the global education movement at the adult and collegiate level. It was entitled, "A New Civic Literacy – American Education and Global Interdependence."

A summary view of this paper states:

"The lack of political consensus on the nature and extent of global interdependence, the future-oriented, long-term, complex character of many interdependence issues such as energy, food, population, and the environment, and the institutional inertia, historical parochialism, and social conservatism of the

educational enterprise all limit the capacity of American education to help us cope with interdependence. This potential is further limited by the constitutional incongruity that public education is a state and local responsibility while most interdependence issues are perceived, at least by state and local political and educational leaders, as being primarily related to the concerns of the national government and our external relations. The decentralized character of American education also makes more difficult the introduction of widespread educational change to respond to the challenge of global interdependence.

The Reality of Global Interdependence

"To compound the problem further, formal education is only one means by which Americans learn about the rest of the world and the problems of interdependence and possibly not the most important; to cite the obvious example, the mass media are a major source of information and ideas. There is also some evidence pointing to a range of world views embedded in American popular culture which are likely to inhibit efforts by educational institutions to introduce alternative views of the international order more compatible with the realities of global interdependence.

Preparing Future Generations to Cope with Interdependence

"The educational enterprise, nonetheless, has a vital role to play in preparing present and future generations of Americans to cope with interdependence. Universities contain intellectual skills needed to develop the knowledge base about global interdependence; developing a more secure knowledge base should facilitate greatly the building of political consensus on what we should do about global interdependence. The mass media by their very nature are event-centered, imposing on schools and colleges an obligation to provide students with the continuity and depth of understanding demanded by complex, long-term interdependence issues. Schools, furthermore, have the golden opportunity, if they will but use it, of shaping the world views of future generations of Americans along lines more compatible with the realities of global interdependence before these world views become hardened through maturation along other less compatible lines.

The Need for a New Civic Literacy on Interdependence

"What is required is a sustained effort to bring about a new and expanded civic literacy on key interdependence issues. Among the major elements in such an effort are these:

- "1. Development of a comprehensive, long-range strategy to achieve this new and expanded civic literacy on the realities of global interdependence through curriculum revision, teacher training, and community education.

"2. Policy support by political, educational, and other leaders at the national and state levels to legitimize local initiatives in implementing this strategy and to give priority status to such initiatives in allocating funds under existing programs for educational change and improvement.

"3. Development of a stronger knowledge base on interdependence issues as a means of furthering political consensus;

"4. Further analysis of the world views embedded in American popular culture and experimentation with ways of shaping these views to make them more compatible with the realities of global interdependence;

"5. Strengthening of existing activities and development of new patterns of long-term cooperation with intellectual and educational communities throughout the world to enable us to understand interdependence issues not only through our own eyes but also as others see them;

"6. A major effort by the educational community to assist the mass media in dealing with the realities of global interdependence – through overseas internships as an integral part of professional training in the field of mass communications, mid-career fellowships for correspondents at U.S. universities and overseas to deepen their knowledge of interdependence issues, and background seminars for editors in the electronic and print media on emerging trends in relation to these issues. Parallel efforts are needed with other institutions such as trade unions, farm organizations, business corporations, churches, civic and women's groups, and public libraries. ("A New Civic Literacy – American Education and Global Interdependence." A paper prepared for the National Commission on Coping with Interdependence, Ward Morehouse, Interdependence Series No. 3. New York: Aspen Institute for Humanistic Studies, Program on International Affairs, 1976.)

American History Studies Are Impediment to Global Interdependence

In reference to the historic mission of America's public education, the Aspen Institute publication stated:

"...An important part of the problem of adapting education to help Americans cope with global interdependence is the legacy which we have inherited from the past. Historically, one of the principal social purposes of the American common school was to fashion a national identity out of a population of diverse origins. Reflecting this historic view of the role of public education are a number of prescriptions still on the statute books of many of our states which require specified amounts of time in the curriculum for the study of American history and government and which stipulate that the language of instruction in public schools must be English.

"While no one would dispute the central importance of the study of our national history and government in the school curriculum, it is frequently carried to an excessive degree, often beyond legislative requirements...." (*Ibid.*)

Americans Still Worship at the Altar of Local Control

If students are studying American history and favor constitutional government, they might not want to transfer their national sovereignty (political and economic) to international bodies. The proponents of global education feel that there are a number of "constitutional incongruities and institutional rigidities" which must be changed. The publication continues:

"To compound our difficulties still further, we are confronted with an incongruent relationship between responsibility and control of education under our political system and the dominant nature of the principal interdependence issues with which we must now cope. By constitutional prescription and historical practice, education is the primary responsibility of the states (and through them, the localities). Whether or not local control of education is in fact largely a myth (some suggest it is the textbook publishers who exercise the decisive influence over the curriculum), we still worship at the altar of local control. Indeed, the trend in recent years, especially in large urban school systems, has been to develop new patterns of organization designed to make schools more responsive to the needs and concerns of the immediately surrounding communities.

"Notwithstanding the growth of the federal support and involvement in education in the past decade, the role of our national government is still marginal. New York State, as one illustration, spends approximately \$4 billion annually on elementary, secondary, and higher education; federal funds for education in New York State come to only \$420 million.

"At the same time, even though one of the characteristics of global interdependence is to blur the traditional distinction between "domestic" and "foreign," important elements in key interdependence issues such as energy, food, population, environment, and nuclear deterrence are linked to our external relations. And constitutional prescriptions, as well as historical experience and practical necessity, give our national government responsibility for the conduct of these relations." (*Ibid.*)

The Difficulty of Changing America's Educational System

The author of this paper favors global interdependence and central planning of educational policy at the national and international levels. He feels that local control of education is a "constitutional incongruity" which must be dealt with. The author next notes the great difficulty in changing the American education system. He stated:

"Given its inherent social conservatism and institutional rigidities, the educational system is not easily changed, at least in any substantial way over a short period of time. It is by no means clear that even with large-scale infusions of money, fundamental changes which would place the educational system at odds with the larger social and political environment can be achieved. While educational change is not easily measured, there was probably more widespread change in formal education in the 1960's than its critics would like to admit but not as much as its apologists would claim. Federal funds were expended for the purpose of changing the system, but these funds were quite small in relation to the total societal investment in education and were made available for only relatively brief periods of time. In short, the lessons of the 1960's remain unclear.

"What is clear is that the loss of public confidence in education as an instrument of social amelioration is unlikely to lead to large allocations of funds by the states or the federal government to change our schools and colleges in order to make them better instruments for coping with interdependence. The states, even though they provide the bulk of the expenditures for public education, are even less likely to take the initiative because they see the principal interdependence issues linked to the heavily influenced by our external relations, a responsibility of the national government under our federal political system. State political leadership will also argue that, whatever the financial problems of the federal government, state and local governments are in a far worse position and that the federal government controls the bulk of the taxing power.

"Student enrollments are already leveling off, and beginning to decrease, in some cases sharply, at the lower levels of the educational system, leaving those responsible for the administration of the system with the unenviable task of managing decline. The financial consequences of these demographic facts of life, coupled with the growing militancy of school and college teachers' unions and professional associations in a determined effort to protect their jobs, are all too likely to harden resistance to change which is essential if education is to abandon its historic parochialism and play a positive role in helping American society cope with interdependence.... (Ibid.)

The Need to Shed the Heritage of Parochialism

"...The task of bringing about the kind of transformation which will make education a better instrument for coping with interdependence is formidable. We need to shed an inheritance of parochialism which we have been accumulating for the past two hundred years. We must find the critical leverage points in a highly decentralized educational system within a constitutional framework which places primary responsibility for education on governmental structures insulated from the more urgent imperatives of global interdependence. And we must simultaneously reach out to the rest of the world to strengthen transnational perspectives on key interdependence issues." (Ibid)

Achieving an Educational Transformation in America

The author next proceeded to give a detailed presentation in favor of the six-point plan of action outlined previously. The report ends with these words:

"The kind of educational transformation for which we have argued in these pages will not come easily. Changing complex social institutions in any fundamental way requires unlimited quantities of sweat and almost certainly some tears, if not blood. It is far less troublesome to maintain the status quo or at best countenance peripheral changes without disturbing the mainstream. Why then bother?..."

"In assuming the burdens of Atlas, Robert Heilbroner suggests that 'the spirit of conquest and aspiration will not provide the inspiration it needs for this task.' On the contrary, achieving the educational transformation, which the future demands will require all of the spirit of conquest and aspiration which we possess."

Developing a World Citizenry

In 1979, McGraw-Hill Book Company published a book entitled *Schooling for a Global Age*. It called for a revolution in educational philosophy and values. The inside cover of the book jacket stated the volume's central message:

"Global education – teaching elementary and secondary students to think for themselves as participants in a world society – is the focus of many pioneering programs today in elementary and secondary schools throughout the United States. This book provides a comprehensive, up-to-date examination of these programs, as well as practical advice for those who wish to introduce such programs in their own schools...."

"Much is now known about how various methods, classroom materials, and administrative policies can help or hinder students' development of global perspectives, and this book explains it in depth."

"The book presents arguments...for...specific changes advocated by those who support a worldview in education...."

"This book...recognizes that increasing global interdependence must be acknowledged, and offers practical educational programs to that end." (James M. Becker, editor, *Schooling for a Global Age*, New York: McGraw-Hill Book Co., 1979, cover.)

Enlightened Social Engineering Is Needed

The Aspen Institute publication previously quoted was intended for adult and collegiate audiences. *Schooling for a Global Age* was written for high school and elementary educators. In the Forward, John I. Goodland states:

"...The development of global perspectives as defined and elaborated upon in this volume, is not an established educational goal in any country. The meaning and significance of such a goal can be described, at best, as only emerging. Gaining widespread acceptance of it and implementing what it implies will not be easy....

"It must be recognized also that even when planned and carried out with the best intentions, education cannot offer immediate solutions to urgent global problems. Enlightened social engineering is required to face situations that demand global action now. Education is a long-term solution.

"But let us assume that present and future conditions in the world and the need to prepare young people to live in and care for spaceship earth necessitate educating for a global perspective to a degree far surpassing anything attempted thus far.... We cannot wait for a worldwide consensus to be reached as to the need for promoting global perspectives. Indeed, we have a responsibility to help bring about that consensus. In short, we must respond educationally. The cultivation of global understanding and attitudes must begin with the soil of our backyard gardens.

"However, to ignore the fact that there are strong inhibiting factors in the history of our national experience and in the environmental context where education must proceed would be dangerous to the point of assured failure. Factors in our heritage impinge significantly on our ability to become seriously involved in processes of education required. We have derive over the two centuries of our existence as a nation of tremendous satisfaction from living with considerable self-sufficiency within our own boundaries. We have tended often to think of this nation as a unique experiment, not to be unduly influenced or, indeed, contaminated by the experience of others. This view, in turn, may have served to limit our horizons...." (*Ibid.*, pp. xiii-xiv.)

The Need to Reshape Education

James M. Becker, a professor at Indiana University, is one scholar who actively believes in the development of a new consensus which would support a global society. Writing in a chapter entitled, "The World and the School: A Case for World-Centered Education" in *Schooling for a Global Age*, he states:

"...Developments in hometowns everywhere, like the networks of jet airplane routes, oil pipelines, giant ships, and instantaneous global communication, have

largely eliminated the cushion of space that once separated nations and peoples. But being closer does not necessarily mean that improved understanding or a sense of world community is inevitable. Proximity contains not only the potential for integration, but also the potential for increased conflict. These conditions demand new concepts and practices of world-wide sharing of responsibilities and a readiness to see the world as an interdependent community.

"The increasing impact of world events on the everyday lives of more and more people is stimulating changes in the ways individuals view themselves, other human beings, and planet Earth. There is increasing awareness that we are all inhabitants of a single planet and share a common fate as members of a single species. As a nation and as a people we may not yet be ready for planet-wide discussion or involvement. Other nations and peoples probably are not ready either, but as a powerful nation, our shortcomings may count more.

"The situation does not suggest that we need to develop further our capacities to benefit from diversity, to communicate with others who do not share our values, to recognize the need to identify with human beings everywhere, to manage conflict, and to tolerate ambiguity. It also suggests that opportunities for participation in the social and economic processes of our increasingly interdependent world must be made more visible and that more attention should be paid to developing the understandings and skills is needed for such participation. Ruschauer argues:

"We need a profound reshaping of education if mankind is to survive in the sort of world that is fast evolving... Before long humanity will face grave difficulties that can only be solved on a global scale. Education...is not moving rapidly enough to provide the knowledge about the outside world and the attitudes toward other people that may be essential for human survival within a generation or two.'

"...In this volume [*Schooling for a Global Age*] we are concerned about education, at the precollegiate level, can help people understand the nature of the emerging global society and develop the identities, attitudes, and competencies needed for responsible participation...." (*Ibid.*, pp. 35-36.)

Developing a World Centered School

Professor Becker next discusses the world-centered alternative:

"Increasing interdependence and rapid change are facts of life in the last of the twentieth century. We assume that a complex society requires diversity of character and competence in order to deal with new and changing situations. The world-centered school can be an important element in the effort to develop pluralism in outlook, competence, and approaches to action.

"Although respect for diversity is one of the noblest traditions of American society, American schools have not always been guided by this principle. Instead,

the focus has often been on teaching the 'American way' and presenting students with an uncritical chauvinistic view of our society. New patterns of education can strengthen our commitment to pluralism. But it seems unlikely that such a condition will be fostered in a single setting or a unitary school program.

"We believe that it is not enough to be exposed to only one set of values, however perfect they may seem. Growing up with a single set of values can be imprisoning...." (*Ibid.*, p. 37.)

The Philosophy of a World-Centered School

Professor Becker and other writers in *Schooling for a Global Age* are advocating the establishments of a new educational philosophy where the present schools would be significantly modified to promote global perspectives. In fact, chapter 1 of the textbook begins with a fictional account of what a globally-minded school should be like. They call the school "middleston." Professor Becker outlines the philosophy in a world-centered school as follows:

"...To foster global perspectives, a change to see beyond the local group and to experience a variety of social and cultural settings should be provided for every child....

"A second cornerstone of the world-centered philosophy is community. While we believe that the choices available to students should be basic enough to produce significant differences in attitudes and views, those differences should not be so divisive that they seriously threaten the notion of community. A great deal of the effort of a world-centered school must be devoted to awakening in students an awareness of their membership in the global human community and in all other communities in which they belong. Learning situations and classroom practices, whatever the subject matter or grade level, must be deliberately shaped so that they contain, as elements of the learning process, certain important components of community....

"An important concern in establishing goals and objectives for world-centered schools is the concept of citizenship, not in the narrow sense of serving the state, but rather in the sense of encompassing whatever individuals do that affects the welfare of others....

"In this sense the responsibility for citizenship training has a long history in American education. The next step must be to broaden citizen or civic education to include global dimensions.

"We start with the assumption that citizens must be prepared to participate in a variety of groups – family, local community, nation, and transnational....

- "1. To develop students' understanding of themselves as individuals....

"2. To develop understandings of themselves as members of the human species....

"3. To develop students' understanding of themselves as inhabitants and dependents of planet Earth....

"4. To develop students' understanding of themselves as participants in global society....

"5. To develop within students the competencies required to live intelligently and responsibly as individuals, human beings, earthlings, and members of global society....

"Identities, loyalties, and competencies as well as rights, duties, obligations, and privileges are associated with each of these goals. For example, students might explore the issues involved and discuss the rights one has by virtue of being a member of the human species. The Universal Declaration of Human Rights, the Humanist Manifesto, and 'UNICEF and the Rights of the Child' are among many documents and other materials which can be used to in considering this question...." (*Ibid.*, pp. 37-38, 40-41.)

World Centered Schools Promote Global Interdependence

Professor Becker believes that:

"...If we are to avoid world conflict and solve global problems, many more people must hold these views. The world-centered school with its emphasis on...the 'oneness' of the modern world, can help students and other members of the community grapple with these complex and controversial issues...." (*Ibid.*, p. 43.)

The Meaning of Global Education

Professor Becker apparently feels that unless more people embrace the tenets of secularism and democratic socialism there will be world conflict.

In a section entitled "Organizing the Program," Professor Becker explicitly outlines the worldviews held by the authors quoted in *Schooling for a Global Age*.

"...At least three different views exist about how international or world studies should be organized. One view holds that the most important goal of such a program should be to help students become intelligent, loyal supporters of the national interest....

"Another view advocated by some supporters of international education holds that intercultural understandings should be the central focus of international education....

"A third argues that while foreign policy issues and language and area studies are important, a world view – that is, seeing oneself and human beings generally as members of a single species on a small planet – is what is needed today. For the most part, the authors of this volume speak from this position. We hold...that global education means 'education for responsible participation in an interdependent global society...." (*Ibid.*, p. 44.)

The Virtues of UNESCO

In his essay, Professor Becker points out the virtues of UNESCO and its contribution to further establishing a global society:

"...The establishment of UNESCO in 1945 is generally regarded as the most important event in the field of international education during the post-World War II era. The UNESCO Associated Schools Program – a network of secondary schools established in 1953 and now including more than 1,000 schools in over sixty countries (in 1977 some forty United States schools located in eight different states were involved in this effort) – has sponsored numerous conferences for teachers. The East-West Major Project, concerned with the improvement of textbooks, and the UNESCO geography series are among UNESCO's other major contributions to the improvement of international and intercultural education at the precollegiate level.

"The 1960s saw the passage by the U.S. Congress of Title VI of the National Defense Education Act (NDEA), which provided federal funds to stimulate language and area studies at the post-secondary level. The U.S. Office of Education funded a major study in goals, needs, and priorities in international education at the elementary and secondary level in 1966. Known as the Anderson/Becker report, it called for a new definition of the international education emphasizing the need to prepare children and youth to live in a global society.

"The UNESCO Recommendation concerning Education for International Understanding, Cooperation and Peace and Education Relating to Human Rights and Fundamental Freedoms adopted by the General Conference in November 1974 builds upon the progress made during the last twenty-five years in UNESCO member states. It also is in keeping with perspectives on international and global education espoused by social scientists and educators in the United States. The Recommendation offers an excellent set of guiding principles for educational policy in the field of international education. They include:

"1. An international dimension and a global perspective in education at all levels in all its forms.

"2. Understanding and respect for all peoples, their cultures, civilizations, values, and ways of life, including domestic ethnic cultures and cultures of other nations.

"3. Awareness of the increasing global interdependence between peoples and nations.

"4. Ability to communicate with others.

"5. Awareness not only of rights but also of the duties incumbent upon individuals, social groups, and nations toward each other.

"6. Understanding of the necessity for international solidarity and cooperation.

"7. Readiness on the part of the Individual to participate in solving problems of his or her community, and the world at large.

"Like the...world-centered approach, these guiding principles with their focus on problem-centered education, active participation by individuals, and the importance of international cooperation might well serve to provide some common focus to the great variety of approaches found in the United States schools...." (Ibid., p. 49-50.)

Developing an Educational System Based on Global Interdependence

Professor Becker concludes his chapter with the following summary:

"Devising an educational system capable of responding to society's needs in the late twentieth century is one of human kind's most challenging problems. Education has become a major means of informing people of the need for change and for stimulating acceptance of new attitudes. The need to understand the consequences of growing pressures of human activity on the ecosystem, the input of technological forces weaving all human kind into a single planetary society, and the consequences of the accelerating pace of change put heavy burdens on the educational system. To date, the dramatic changes in society since 1900 have not resulted in significant changes in our schools or in our colleges and universities. Many American children today receive much the same education their grandparents received. In the view of some critics, efforts to use the schools to bring about needed change in society relating to world affairs have not always met with success...." (Ibid., p. 55.)

The Need for a Global System of Government and Education

The main goal of Professor Becker and his colleagues in *Schooling for a Global Age* is to "educate students for responsible participation in an interdependent

global society." (*Ibid.*, p. 55.) Bruce R. Joyce and Alexander M. Nicholson prepared chapter four of the above text. It is entitled "Imperatives for Global Education." In this chapter they issue two caveats on global education.

"The primary purpose of this chapter is to arrive at a reasoned set of imperatives for global education that will guide the construction of school curricula. Against this end there are two impediments that must be mentioned....

"The first of these is that this particular area of curriculum is tinged with ideological overtones that are lacking in other less controversial areas.... Ideological strains such as isolationism, jingoism, and chauvinism militate not only against much of what is being taught in global education but even against teaching it at all.

"The other special impediment to global education is the lack of a global government and other appropriate institutions to carry it out. Although there are a number of agreed-on domains on international action in such fields as health, postal service, air traffic, weather observation, and international communications, most issues must be negotiated specifically in the absence of general policy. There is no universal language of learning comparable to Latin in the Middle Ages. The problem of creating international institutions, moreover, involves much more difficulty than merely extending existing institutions to international dimensions. The deficiencies of the international monetary and legal systems point up this fact only too well. Added to this inherent difficulty are the differences in perceived self-interest among nations...." (*Ibid.*, p. 101.)

From the above quote we see the authors' lamentations over the fact that a global government is not in operation. It is apparent to this writer that Professor Becker, his colleagues, and the sponsors of the book, *Schooling for a Global Age*, are mainly interested in utilizing the public school system as a vehicle to promote a specific set of theories and philosophies which pave the way for an interdependent global community. They seem to be more concerned with indoctrinating the rising generations with a secular worldview than true education. They seem oblivious to the fact that the principles they are advocating have caused nothing but bondage in the nations which have implemented them. They not only want to now implement them in the United States, but to make them universal as well.

Prominent Citizens in America Promoting Global Education

John I. Goodland, writing in *Schooling for a Global Age*, states:

"...There are now dozens of organizations, some of them with our most prestigious citizens on their boards, actively promoting goals and activities designed to raise our consciousness of the world in which we live. Many national educational organizations representing teachers, administrators, and policy makers

have explicitly committed themselves to furthering the aims of global education...." (*Ibid.*, p. xvi.)

In other words, there are now "dozens of organizations," some of them with some of our most "prestigious citizens on their boards," advocating interdependence in order that a global system of government may be established.

21. The Introduction of Legal Positivism into America

Constitutional Government – The Commentaries of Justice Joseph Story

Introduction

In 1883, an associate justice of the U.S. Supreme Court named Joseph Story compiled a law text entitled *Commentaries on the Constitution of the United States: With a Preliminary Review of the Constitutional History of the Colonies and States, before the Adoption of the Constitution*. Joseph Story was at the time of the completion of the two volume text the Dane Professor of Law at Harvard University. The commentaries were used by law schools throughout the nation until approximately 1900. Joseph Story outlined the purpose of his law text as follows:

"...My object will be sufficiently attained, if I shall have succeeded in bringing before the reader the true view of its powers, maintained by its founders and friends, and confirmed and illustrated by the actual practice of the government. The expositions to be found in the work are less to be regarded as my own opinions, than as those of the great minds which framed the Constitution, on which have been from time to time called upon to administer it....

"With more leisure and more learning, it might have been wrought up more in the spirit of political philosophy. Such as it is, it may not be wholly useless, as a means of stimulating abler minds to a more thorough review of the whole subject, and of impressing upon Americans a reverential attachment to the Constitution, as in the highest sense the palladium of American liberty." (*Commentaries on the Constitution of the United States*, Boston: Little, Brown and Company, 1858, Third edition, pp. viii-ix.)

The Doctrine of Natural Law

It was Joseph Story's goal to impress "upon Americans a reverential attachment to the Constitution." One of the main philosophical foundations for the U.S. Constitution and Story's commentaries is the doctrine of "natural law." In 1836 the *Encyclopedia Americana* published an essay on natural law written by Joseph Story. In this article Joseph Story explained:

"Natural Law, or, as it is commonly called, the law of nature, is that system of principles, which human reason has discovered to regulate the conduct of man in all his various relations. Doctor Paley defines it to be the science, which teaches men their duty and the reasons of it. In its largest sense, it comprehends natural theology, moral philosophy, and political philosophy; in other words, it comprehends man's duties to God, to himself, to other men, and as a member of political society.

God Prescribes the Rules for Mankind

"The obligatory force of the law of nature upon man is derived from its presumed coincidence with the will of his Creator. God has fashioned man according to his own good pleasure, and has fixed the laws of his being, and determined his power and faculties. He has the supreme right to prescribe the rules, to which man shall regulate his conduct, and the means, by which he shall obtain happiness and avoid misery. He has given to man the power of discerning between good and evil, and a liberty of choice in the use of those means, which lead to happiness or misery. The whole duty of man therefore consists in two things; first, in making constant efforts to ascertain what is the will of God; and, secondly, in obedience to that will when ascertained....

There Is a God of Infinite Power

"We shall assume, without undertaking to prove, that there is a God of infinite power, knowledge, wisdom, benevolence, justice and mercy; that he has created man with suitable powers and faculties to pursue and obtain happiness; that his soul is immortal; that his ultimate happiness or misery is dependent upon his own conduct; that there is a future state of retribution, in which the inequalities of the present life will be adjusted according to supreme wisdom and goodness; that, by a right application of his powers and faculties, many may always discern and pursue his duty; that virtue, or doing good to mankind is obedience to the will of God, has attached to it the reward of everlasting happiness; and the vice, or doing wrong is disobedience to that will, is, by the very constitution of man's nature, necessarily connected with suffering and misery, directly or ultimately.

"In short, that man cannot be permanently happy by the practice of vice, and must be permanently happy by the practice of virtue. We shall assume these propositions, not because they are not susceptible of complete proof, but because, not being intended to be discussed in this place, they nevertheless form the basis of the subsequent remarks.

The Rights and Duties of Man

"From the moral government of God, and the moral capacity and accountability of man, we deduce his general rights and duties.

"1. His duties towards God. In the just performance of these duties consists piety or devotion. In a large sense, indeed, every performance of our duty is but a performance of some duty towards God; since it is his will which makes it a duty. But in the restrained sense, in which we are accustomed to use the phrase, we refer it to those duties of which God is peculiarly the object. As he is our Creator, we owe him supreme worship and reverence; as he is our Benefactor, we owe him constant gratitude and thankfulness; as he is our Lawgiver and Judge, we owe an unreserved obedience to his commands. We are frail and dependent beings, and we have constant reason to implore his assistance, his mercy and his forgiveness. Hence arises the duty of prayer, as a solemn recognition of our dependence on God; as a means of religious improvement and of cultivating devout affections; as an effectual instrument of communing with our own hearts; as a source of consolation under the afflictions of life; and as an exercise of piety fitted to give a spiritual elevation to our thoughts, and a livelier and more enduring sense of our duty. From the same causes also flow the duty of public and social worship; of maintaining religious institutions; of aiding in the diffusion of religious knowledge; and of keeping in view, in all our words and actions, an habitual and reverential fear of God.

"2. The duties of man towards himself, or those which terminate in himself. Among these we may enumerate the duty of personal holiness; of self-preservation; of temperance; of humility; of personal improvement in knowledge, wisdom and virtue; and of preserving a conscience void of offence towards god and towards man.

"3. The duties of man towards other men, or what are called his relative duties, arising from the various relations, which he sustains or may sustain towards others. – Now these duties flow from the correspondent rights of others.... We call those rights natural, which belong to all mankind, and result from our very nature and condition; such are a man's right to his life, limbs and liberty, to the produce of his personal labor, at least to the extent of his present wants, and to the use, in common with the rest of mankind, of air, light, water....

The General Rights of Mankind

"It is difficult to make any exact enumeration of what may be deemed the general rights of mankind, which may not admit of some exceptions, or which may not be deemed capable of modification under peculiar circumstances. Thus the most general rights, which belong to all mankind, may be said to be the right to life, to liberty, to property, and to the use of air, light, water, and to the fruits of the earth. And yet, under certain circumstances, life, and liberty, and property, may justly be taken away; as, for instance, in order to prevent crimes, to enforce the rights of other persons, or to secure the safety and happiness of society. And in like manner the free use of air, light and water, may be interdicted...." (Quoted in James

McClellan, *Joseph Story and the American Constitution*, Norman, Okla: University of Oklahoma Press, 1971, pp. 313-315.)

The doctrine of natural law was one of the guiding principles of the founding fathers and steered this nation until approximately 1900. It is easy to understand why the supporters of unlimited government, democratic socialism and secularism have opposed this doctrine. Students and scholars whose philosophical foundation has been built upon the doctrines of natural law quickly reject socialism and secularism.

The Progressive Education Movement Brings about Drastic Changes in Law Schools

In 1971 Professor James McClellan, in his commentary on Joseph Story, outlined the drastic change in law schools and texts brought about by the so-called "Progressive education movement:"

"Since the time of Story, the concepts of natural law and natural justice have fallen into an eclipse that has lasted more than a century. Such notions are no longer formally acknowledged as worthy of study or as guiding principles of jurisprudence. Most social scientists and legal scholars have adopted the Benthamite attitude that natural law is a legal fiction, the idle play of the imagination. Ignoring the fact that improvement in the law and in the art of government was often the result of the application of the moral principles of the natural law to the practical affairs of man, many have in effect dismissed as irrelevant and uninformative more than a thousand years of legal development.

The Importance of Historical Studies

"History is the only true way to attain a knowledge of our own condition,' Savigny, an admirer of Judge Story, wrote in 1815. While this may be an overstatement of the case for legal history, on the other hand it is true that today there is a near total disregard for this important subject. That a comprehensive history of American law has never been written is indeed a sad commentary on our times. Today's law students often graduate from the universities knowing little or nothing of legal history or legal philosophy. Seeming to despise the past, the legal world has turned to positivism and its vagaries in search of an elusive, 'pure' science of law, much in the same way political scientists are now turning in increasing numbers to 'behavioralism' in search of a 'pure' science of politics. The only genuine knowledge, contend the positivists, is 'scientific' knowledge. Any metaphysical question that does not lend itself to the methods of science or empirical proof should not be asked; it is 'unscientific,' and consequently 'unintellectual', to make value judgments or to raise questions pertaining to the intellectual and ethical attributes of a particular political system, set of laws, or judicial decision.

Legal Relativism Advocated in Law Schools

"To the positivist, concepts such as religion, culture, justice, virtue, and liberty are relative, and therefore meaningless. To the legal positivist – and he is a dominant figure in almost any law school today – the question that he invariably poses to his students asks what the law is, not what it should be. This narrow focus on the law as declared by the judges and legislatures is what Judge Story inveighed against, and what threatens to reduce the lawyer to the intellectual compass of a technician who simply recites cases, makes the proper citations, and dares not question the wisdom of the laws. The crucial consideration, holds the positivist, is not what is good law, but what is law or how it came into being. hence it is impossible for the positivist to tell right from wrong, a just law from an unjust law, a good government for an evil one." (McClellan, pp. vii-ix.)

Legal Positivism Takes Root in America

Professor McClellan outlined the development of the concept of "legal positivism" and its adoption in America as follows:

"An ally of utilitarianism, legal positivism first took root in Germany. Hans Kelsen, who with Rudolph Stammler founded the neo-Kantian school of jurisprudence, represented every tenet of the traditional conception of rule of law as a metaphysical superstition. A state, he insisted, could not act 'illegally' because 'Every expression of the life of a State, every act of State, is a legal act.' The founder of the neo-Hegelian school, Josef Kohler, reached similar conclusions, asserting that there were no universal truths or eternal standards of right conduct.

Legal Positivism Spread to U.S. from Germany

"The legal positivists were influential outside Germany, and their doctrines spread to the United States, where they were embraced by the rising school of jurisprudence known as 'legal realism.' Its most illustrious spokesman was Justice Holmes, who scoffed at natural law and thought it best if 'every word of moral significance could be banished from the law altogether.' Justice Holmes, in fact, proclaimed that he did 'not know what is true.'

"But Holmes did know what was true; and like the natural law jurists he acted upon certain values, consciously or unconsciously. His opinions, as we all know, revealed a libertarian bias, a strong commitment to the need for vigorous protection of free speech and press, but less enthusiasm for economic due process or 'liberty of contract.' And it seems abundantly clear that today's doctrines of jurisprudence and the rejection of natural law have not 'neutralized' the Constitution or rendered judicial opinions any less immune from value judgments.

The Current Attack on Natural Law

"In the modern Court the attack on natural law in the name of impartiality continues unabated, Justice Black being its most vociferous foe. He strongly criticized Justice Frankfurter in *Adamson v. California* for having suggested that 'In the history of thought, "natural law" has a much longer and much better founded meaning and justification' than the doctrine that the first eight amendments to the Constitution can be incorporated wholesale into the Fourteenth. Professing self-restraint, complete objectivity, and a value-free, mechanistic jurisprudence, Black informed his colleagues that natural law was an 'incongruous excrescence on our Constitution' which only served to 'degrade the constitutional safeguards of the Bill of Rights and simultaneously appropriate for this Court a broad power which we are not authorized by the Constitution to exercise.' These are the words of a jurist who has gone as far as any member of the Supreme Court to stretch the meaning of the Constitution and expand federal judicial power! Fearful that the subtle workings of natural law might be influencing Justice Harlan, Black dissented in a recent decision involving the 'right of privacy,' insisting that this 'mysterious' philosophy of natural law had been 'repudiated' by the Supreme Court. Like Holmes, Black seems unaware of his own partisanship in defense of absolutist libertarianism. The point is not simply that the spirit of natural law, as Otto Gierke observed, can never be extinguished, but that a completely value-free jurisprudence is both undesirable and impossible." (McClellan, pp. ix-x.)

Legal Positivism Will Lead to Tyranny in America

McClellan next outlined his fear that "legal positivism" will ultimately lead to governmental tyranny in America.

"Purporting to be 'objective,' the positivists and those under their influence delude themselves; they disavow values while at the same time they impose them. Leo Strauss has quite properly remarked that there is 'a mysterious pre-established harmony between the new political science and a particular version of liberal democracy. That version of liberal democracy is not discussed openly and impartially.... The new political science look for laws of human behavior to be discovered by means of data supplied through certain techniques of research which are believed to guarantee the maximum of objectivity; it therefore puts a premium on the study of things which occur frequently now in democratic societies: neither those in their graves nor those behind the curtains can respond to questionnaires or to interviews. Democracy is, then, the tacit presumption of the data.'

"And to this, Russell Kirk adds cogently: 'Although, generally, the behaviorists treat with indifference or contempt the questions of transcendent knowledge and of moral beliefs, their own predilection for molding society into a thoroughly democratic, egalitarian, strifeless unity necessarily brings them face to face – however disconcerting this may be – with religious and moral influences upon

politics.... By disavowing all 'value judgments,' the behaviorists are cast back upon personal prejudices, popular slogans, and self-interest as models for society. Democracy, equality of condition, and social unity – not to say monolithic society – are the goals which appear, explicit or implied, in their writings.'

Legal Positivism Enjoyed Wide Support among Germany, Italy and Russia

"The claims of positivism, it would appear, do not always conform to the results. But more important, legal positivism, to confound the matter further, is often driven by the force of its inner 'logic' to a position of neutrality between the free society and its totalitarian enemies. It is a short walk from the positivistic doctrine that law should be viewed as a form of regulated force, that the only true law is the command of the sovereign, to the idealization of the state and 'scientific' socialism. If, as the positivists say, man is incapable of knowing justice, freedom, religion, and virtue, is not any system acceptable? Perhaps it is no mere coincidence that 'In Hitler Germany and in Fascist Italy, as well as in Russia,' legal positivism enjoyed some of its first and greatest successes among the intellectuals, establishing the belief 'that under the rule of law the state was "unfree," a "prisoner of the law," and... must be released from the fetters of abstract rules. A 'free' State was the one that could treat its subjects as it pleased.

Power Is Centralized in Washington, D.C.

"Despite repeated assertions of faith by many intellectuals that basically democratic societies such as ours are incapable of succumbing from within to totalitarianism, there is no denying that over the past years the government of the United States has moved steadily in the direction of unlimited political power and increased control of the individual in his daily affairs. 'As an augury of things to come,' Professor John Hallowell warns us, 'realistic jurisprudence certainly suggests that tyranny is an inevitability. For the only way out of the intellectual and moral anarchy underlying the realist's conception of the law is tyranny. If force alone, as Justice Holmes believed, is the only possible arbiter of our 'deep-seated preferences,' if moral judgments are nothing more than expressions of individual taste and preference, and if law, as Jerome Frank declares, is simply what men arbitrarily declare it to be, then we have no choice but to submit our differences to the arena of force.'" (McClellan, pp. x-xii.)

The Doctrine of Natural Law Is the Life Force of America

There is a movement in America to establish civil law or "legal positivism" as a permanent fixture of the law school curriculum, and to eliminate the concept of "natural law." Professor McClellan feels that the doctrine of "natural law" is the "life force" of the United States.

"In the past, the influence of natural law ideas upon the development of case law in particular has been questioned by some legal scholars, who have suspected

that judicial references to natural law or natural rights were nothing but 'rhetorical flourishes' adhering to no fixed standards. A popular text of jurisprudence, for example, asks whether 'judicial references to "natural law," "natural rights," "natural justice" signify the influence or acceptance of natural law or natural rights philosophy in any of its definitive versions.' The author concludes that 'without more evidence (as to the particular case) the answer must be negative.' The reader may judge whether I have offered sufficient evidence to substantiate my claim that the answer must be Yes.

Justice Story Sought to Support Natural Law Principles

"Justice Story was one of the few men of his time who sensed, however faintly, the impending crisis in Western legal thinking and sought to establish an ethical and moral basis for authority through the incorporation of traditional natural law principles into America's institutional framework. His natural law, therefore, forms an essential part of our constitutional heritage, linking our jurisprudence to past, present, and future. It also plays a vital role in the dramatic struggle for the preservation and extension of individual liberty. Tracing the strains of that philosophy is the task to which the reader is invited to turn. (McClellan, p. xii.)

The Concept of Legal Positivism Prevails in Today's Law Schools

The concept of legal positivism now prevails in the law schools of the Nation. The precepts of common law, natural law, etc., are now either ridiculed or forgotten. Each year thousands of lawyers across the nation graduate from law school and enter the legal profession uneducated in the principles which are necessary to preserve a free nation or society. If we continue teaching and practicing civil law we will only see greater concentration of power into fewer hands, a continued loss of freedom, and an army of lawyers dedicated to principles which will only bring chaos, oppression, and suffering to the people.

Part VIII Institutes of International Affairs – Molding the Minds of the Sub-Elite

22. Education for a New World Order: A Global Network of International Affairs Institutes

In March of 1972, David Rockefeller, Chairman of the Chase Manhattan Bank, stated: "A whole generation on both sides of the Atlantic and Pacific has grown up thinking internationally as no generation ever did before...." (Chase Manhattan International Financial Forum, London, Manuscript copy, p. 5.) How has such a tremendous educational feat been accomplished – how has "a whole generation on both sides of the Atlantic and Pacific" come to think "internationally"?

Special Report on the Origin of the Royal Institute of International Affairs

An answer is given, in part, in a monograph entitled "The British Institute of International Affairs," published by the British Institute in July of 1922. (The name of the British Institute was changed to the Royal Institute in 1926 when it obtained its Royal Charter.) The monograph contains the "Report of the Provisional Committee Appointed to Prepare a Constitution, and Select the Original Members of the British Branch of the Institute of International Affairs."

As explained in this report, two great lessons were learned by the delegation who attended the Paris Peace Conference in 1919. The first lesson was the need for close cooperation and understanding among influential leaders in various countries on international affairs. The second lesson was the need for the population of the various nations to think internationally instead of nationally.

The first problem was solved when various Institutes of International Affairs were set up, beginning with the Royal Institute of International Affairs in London and the Council on Foreign Relations in New York. This closely allied interlocking network provided the ideal facilities for setting up close cooperation between influential leaders in various countries.

The second dilemma was also solved with the establishment of these influential Institutes. Immediately they began publishing books, journals, reports, etc., which gradually had a profound effect on influential leaders, government officials, media representatives and the people in terms of training them to think internationally.

A Scheme for the Creation of an Institute of International Affairs

Minutes of a meeting held May 30, 1919, at the Hotel Majestic in Paris, also contained in the monograph, include information on the origin of the Royal Institute and the Council on Foreign Relations.

"Until recent years it was usual to assume that in foreign affairs each Government must think mainly, if not entirely, of the interests of its own people. In founding the League of Nations, the Allied Powers have now recognized that national policies ought to be framed with an eye to the welfare of society at large. The proceedings at Paris have shown how necessary it is to create some organization for studying the relation of this principle to practical questions as they arise. *Resolved Therefore:*

"(1) That those present undertake to form an Institute, entitled 'The Institute of International Affairs, founded at Paris, 1919,' composed at the outset of two branches, one in the United Kingdom and one in the United States.

"(2) That the purpose of this Institute should be to keep its members in touch with the international situation and enable them to study the relation between national policies and the interests of society as a whole." (Appendix, pp. 16-17.)

Members of an Anglo-American Committee Appointed to Establish the New Institute

An Anglo-American committee was appointed to establish this new institute of international affairs. The Americans on this committee were Professor Coolidge, Dr. James Brown Scott and Professor Shotwell. The British members included Mr. Hurst, Captain Clement Jones and Major Temperly.

Development of Similar Institutes Throughout the World

The Report of the Provisional Committee of the British Branch also states:

"...Our hope is that these groups [those who were members of the Peace Delegation in Paris] will hive off and form branches in Canada, Australia, South Africa, New Zealand, Newfoundland and India, in close relations with the British Branch.

"In any case, the establishment of Branches in the United States and in the United Kingdom is a mere beginning.... Once established, these two Branches will eagerly await the development of others in the various capitals of the world, constituted on lines with which they can reciprocate....

"We look, therefore, with hope to the development in years to come of similar institutions in all the principal States of the world, each so constituted that all the others will be able to reciprocate on lines arranged between themselves....

"We are thus looking to a time when, in each important country, the representative sections of thought will have formed for themselves a common centre, where all can meet for study, and so attain to a better understanding of their

several states of mind and of points of view. In each community there will then be a national centre of international thought, and all these centres will be brought into closer communion with each other than has ever been possible in the world before." (*Ibid.*, pp. 13, 14, 15.)

Molding Public Opinion

The Report of the Inaugural Meeting of the British Institute of International Affairs, also included in the monograph, contains the remarks of Lord Grey wherein he stated:

"...This Institute should develop into an organisation which will provide the material from which those who are most influential and who have the greatest amount of knowledge, comprehension and perspective in foreign affairs can form public opinion.

"...Politicians and the Press could make great use of the Institute, and in that way lay the foundations for sound public opinion.... Just as the informal meetings in Paris increased wisdom for individuals, so the Institute may increase national wisdom by forming public opinion. (*Ibid.*, p. 23.)

Need to Think Internationally

Lord Grey continued:

"...The first heading under which the Institute can be used is that [of] historical work – the work of making history out of the present.... The second is the bringing together of people, experts and specialists, to discuss with each other and read papers, and bring their knowledge into a common stock. The third is by removing isolation, and by that I mean promoting international intercourse between those men in the different countries of the world who have most knowledge of foreign affairs and who are most active in forming the thought of their own countries. We have got, if we are to keep the peace of the world in [the] future, not only to think nationally, but to think internationally as well." (*Ibid.*, p. 24.)

A. J. Balfour, who next addressed the Inaugural Meeting, encouraged those present to "create the atmosphere, to create the public opinion, to provide the knowledge, in which the machinery of the League of Nations may really produce all that it is capable of producing." (*Ibid.*, p. 31.)

Powers Which Preside Over the Fate of Nations

J. R. Clynes, a member of the British Parliament, also spoke to the Inaugural Meeting:

"It is indeed strange that the powers which preside over the fate of nations should not have called into being such an institution as this long ago.... Not one of the great blessings for which we pray, the aspirations to which we give vent when we talk of the federation of the world and the parliament of man, not one of these things will come to us unsought." (*Ibid.*, pp. 32, 33.)

Separate Institutions in Each Nation

After careful thought it was decided by the Committee in the U.S. and the Committee in the United Kingdom that it would be more appropriate to have the two branches as initially agreed to. Therefore, two separate institutions were established, one in London and one in New York. These two institutions (The Royal Institute of International Affairs and the Council on Foreign Relations) served as models for the institutions which were to begin evolving in various parts of the world.

Quigley's Affirmation of a Global Network

Professor Carroll Quigley, formerly of Georgetown University, provides essentially the same answer as the Institute's monograph in his book *Tragedy and Hope – A History of the World in Our Time*, published by the Macmillan Company of New York in 1966.

Development of a Global Network of International Affairs Institutes

In this lengthy text Professor Quigley traces the growth and development of a global network of International Affairs Institutes which he believes is responsible, in part, for the "internationalist" educational environment prevalent today throughout the world. In chapter four, "The Buffer Fringe," he describes how "internationalism" had its first origin in the twentieth century in England, pointing out in particular the roles played by John Ruskin, Cecil Rhodes, and other devoted disciples of Ruskin; the organization of the Round Table Groups; the founding of the Royal Institute of International Affairs and the Council on Foreign Relations. He wrote:

The Coming of John Ruskin to Oxford

"Until 1870 there was no professorship of fine arts at Oxford, but in that year, thanks to the Slade bequest, John Ruskin was named to such a chair. He hit Oxford like an earthquake, not so much because he talked about fine arts, but because he talked also about the empire and England's downtrodden masses, and above all because he talked about all three of these things as moral issues. Until the end of the nineteenth century the poverty-stricken masses in the cities of England lived in want, ignorance, and crime very much as they have been described by Charles Dickens.

Ruskin's Comments on English Upper-Class Tradition

"Ruskin spoke to the Oxford undergraduates as members of the privileged, ruling class. He told them that they were the possessors of a magnificent tradition of education, beauty, rule of law, freedom, decency, and self-discipline but that this tradition could not be saved, and did not deserve to be saved, unless it could be extended to the lower classes in England itself and to the non-English masses throughout the world. If this precious tradition were not extended to these two great majorities, the minority of upper-class Englishmen would ultimately be submerged by these majorities and the tradition lost. To prevent this, the tradition must be extended to the masses and to the empire.

The Impact of Ruskin on Cecil Rhodes

"Ruskin's message had a sensational impact. His inaugural lecture was copied out in longhand by one undergraduate. Cecil Rhodes, who kept it with him for thirty years. Rhodes (1853-1902) feverishly exploited the diamond and gold fields of South Africa, rose to be prime minister of the Cape Colony (1890-1896), contributed money to political parties, controlled parliamentary seats both in England and in South Africa, and sought to win a strip of British territory across Africa from the Cape of Good Hope to Egypt and to join these two extremes together with a telegraph line and ultimately with a Cape-to-Cairo Railway. Rhodes inspired devoted support for his goals from others in South Africa and in England. With financial support from Lord Rothschild and Alfred Beit, he was able to monopolize the diamond mines of South Africa as De Beers Consolidated Mines and to build up a great gold mining enterprise as Consolidated Gold Fields.

Rhodes's Desire to Federate the English-Speaking People of the World

"In the middle 1890's Rhodes had a personal income of at least a million pounds sterling a year (then about five million dollars) which was spent so freely for his mysterious purposes that he was usually overdrawn on his account. These purposes centered on his desire to federate the English-speaking peoples and to bring all the habitable portions of the world under their control.

The Original Purposes of Rhodes Scholarships

"For this purpose Rhodes left part of his great fortune to found the Rhodes Scholarships at Oxford in order to spread the English ruling class tradition throughout the English-speaking world as Ruskin had wanted.

Ruskin's Most Devoted Disciples at Oxford

"Among Ruskin's most devoted disciples at Oxford were a group of intimate friends including Arnold Toynbee, Alfred (later Lord) Milner, Arthur Glazebrook, George (later Sir George) Parkin, Philip Lyttelton Gell, and Henry (later Sir

Henry) Birchenough. These were so moved by Ruskin that they devoted the rest of their lives to carrying out his ideas. A similar group of Cambridge men including Reginald Baliol Brett (Lord Esher), Sir John B. Seeley, Albert (Lord) Grey, and Edmund Garrett were also aroused by Ruskin's message and devoted their lives to extension of the British Empire and uplift of England's urban masses as two parts of one project which they called 'extension of the English-speaking idea.'

Cecil Rhodes's and William T. Stead's Secret Association

"They were remarkably successful in these aims because England's most sensational journalist William T. Stead (1849-1912), an ardent social reformer and imperialist, brought them into association with Rhodes. This association was formally established on February 5, 1891, when Rhodes and Stead organized a secret society of which Rhodes had been dreaming for sixteen years. In this secret society Rhodes was to be leader: Stead, Brett (Lord Esher), and Miner were to form an executive committee; Arthur (Lord) Balfour, (Sir) Harry Johnston, Lord Rothschild, Albert (Lord) Grey, and others were listed as potential members of a 'Circle of Initiates'; while there was to be an outer circle known as the 'Association of Helpers' (later organized by Milner as the Round Table organization). Brett was invited to join this organization the same day and Milner a couple of weeks later, on his return from Egypt. Both accepted with enthusiasm.

Formation of an Outer Circle of the Secret Association between 1909-1913

"Thus the central part of the secret society was established by March 1891. It continued to function as a formal group, although the outer circle was, apparently, not organized until 1909-1913. This group was able to get access to Rhodes's money after his death in 1902 and also the funds of loyal Rhodes supporters like Alfred Beit (1853-1906) and Sir Abe Bailey (1864-1940). With this backing they sought to extend and execute the ideas that Rhodes had obtained from Ruskin and Stead. Milner was the chief Rhodes Trustee and Parkin was Organizing Secretary of the Rhodes Trust after 1902, while Gell and Birchenough, as well as others with similar ideas, became officials of the British South Africa Company. They were joined in their efforts by other Ruskinite friends of Stead's like Lord Grey, Lord Esher, and Flora Shaw (later Lady Lugard).

Flora Shaw's Execution of the Imperial Schemes of Cecil Rhodes

"In 1890, by a stratagem too elaborate to describe here, Miss Shaw became Head of the Colonial Department of *The Times* while still remaining on the payroll of Stead's *Pall Mall Gazette*. In this post she played a major role in the next ten years in carrying into execution the imperial schemes of Cecil Rhodes, to whom Stead had introduced her in 1889.

Establishment of Toynbee Hall

"In the meantime, in 1884, acting under Ruskin's inspiration, a group which included Arnold Toynbee, Milner, Gell, Grey, Seeley, and Michael Glazebrook founded the first 'settlement house,' an organization by which educated, upper-class people could live in the slums in order to assist, instruct, and guide the poor, with particular emphasis on social welfare and adult education. The new enterprise, set up in East London with P.L. Gell as chairman, was named Toynbee Hall after Arnold Toynbee who died, aged 31, in 1883. This was the original model for the thousands of settlement houses, such as Hull House in Chicago, now found throughout the world, and was one of the seeds from which the modern movement for adult education and university extension grew.

Semi-Secret Round Table Groups

"As governor-general and high commissioner of South Africa in the period 1897-1905, Milner recruited a group of young men, chiefly from Oxford and from Toynbee Hall, to assist him in organizing his administration. Through his influence these men were able to win influential posts in government and international finance and became the dominant influence in British imperial and foreign affairs up to 1939. Under Milner in South Africa they were known as Milner's Kindergarten until 1910.

"In 1909-1913 they organized semisecret groups, known as Round Table Groups, in the chief British dependencies and the United States. These still function in eight countries. They kept in touch with each other by personal correspondence and frequent visits, and through an influential quarterly magazine, *The Round Table*, founded in 1910 and largely supported by Sir Abe Bailey's money.

Establishment of the Royal Institute of International Affairs and the Council on Foreign Relations

"In 1919 they founded the Royal Institute of International Affairs (Chatham House) for which the chief financial supporters were Sir Abe Bailey and the Astor family (owners of *The Times*). Similar Institutes of International Affairs were established in the chief British dominions and in the United States (where it is known as the Council on Foreign Relations) in the period 1919-1927.

Establishment of an Interlocking Network of International Affairs Institutes

"After 1925 a somewhat similar structure of organizations, known as the Institute of Pacific Relations, was set up in twelve countries holding territory in the Pacific area, the units in each British dominion existing on an interlocking basis with the Round Table Group and the Royal Institute of International Affairs in the same country. In Canada the nucleus of this group consisted of Milner's

undergraduate friends at Oxford (such as Arthur Glazebrook and George Parkin), while in South Africa and India the nucleus was made up of former members of Milner's Kindergarten. These included (Sir) Patrick Duncan, B. K. Long, Richard Feetham, and (Sir) Dougal Malcolm in South Africa and (Sir) William Marris, James (Lord) Meston, and their friend Malcolm (Lord) Hailey in India. The groups in Australia and New Zealand had been recruited by Stead (through his magazine *The Review of Reviews*) as early as 1890-1893; by Parkin, at Milner's instigation, in the period 1889-1910, and by Lionel Curtis, also at Milner's request, in 1910-1919.

Influence of the Rhodes-Milner Group in British Imperial Affairs

"The power and influence of this Rhodes-Milner group in British imperial affairs and in foreign policy since 1889, although not widely recognized, can hardly be exaggerated. We might mention as an example that this group dominated *The Times* from 1890 to 1912 and has controlled it completely since 1912 (except for the years 1919-1922). Because *The Times* has been owned by the Astor family since 1922, this Rhodes-Milner group was sometimes spoken of as the 'Cliveden Set,' named after the Astor country house where they sometimes assembled.

Numerous Papers and Journals under Control of the Cliveden Set

"Numerous others papers and journals have been under the control or influence of this group since 1889. They have also established and influenced numerous university and other chairs of imperial affairs and international relations. Some of these are the Beit chairs at Oxford, the Montague Burton chair at Oxford, the Rhodes chair at London, the Stevenson chair at Chatham House, the Wilson chair at Aberystwyth, and others, as well as such important sources of influence as Rhodes House at Oxford.

Attempts to Organize a Regional Federal System

"From 1884 to about 1915 the members of this group worked valiantly to extend the British Empire and to organize it in a federal system. They were constantly harping on the lessons to be learned from the failure of the American Revolution and the success of the Canadian federation of 1867, and hoped to federate the various parts of the empire as seemed feasible, then confederate the whole of it, with the United Kingdom, into a single organization. They also hoped to bring the United States into this organization to whatever degree was possible.

Washington, D.C. Considered as Potential Capital of the Imperial Federation

"Stead was able to get Rhodes to accept, in principle, a solution which might have made Washington the capital of the whole organization or allow parts of the empire to become states of the American Union. The varied character of the British imperial possessions, the backwardness of many of the native peoples involved, the

independence of many of the white colonists over-seas, and the growing international tension which culminated in the First World War made it impossible to carry out the plan for Imperial Federation, although the five colonies in Australia were joined into the Commonwealth of Australia in 1901 and the four colonies in South Africa were joined into the Union of South Africa in 1910." (Quigley, *Tragedy and Hope*, pp. 130-133.)

International Network in Existence

In chapter seventeen, "Nuclear Rivalry and the Cold War: American Atomic Supremacy, 1945-1950," Professor Quigley continues his discussion of the Round Table Groups, pointing out their significant influence:

"...There does exist, and has existed for a generation, an international Anglophile network.... This network, which we may identify as the Round Table Groups, has no aversion to cooperating with the Communists, or any other groups, and frequently does so. I know of the operations of this network because I have studied it for twenty years and was permitted for two years, in the early 1960's to examine its papers and secret records. I have no aversion to it or to most of its aims and have, for much of my life, been close to it and to many of its instruments. I have objected, both in the past and recently, to a few of its policies (notably to its belief that England was an Atlantic rather than a European Power and must be allied, or even federated, with the United States and must remain isolated from Europe), but in general my chief difference of opinion is that it wishes to remain unknown, and I believe its role in history is significant enough to be known.

Significant Role of the Anglophile Network in U.S. History

"The Round Table Groups have already been mentioned in this book several times, notably in connection with the formation of the British Commonwealth in chapter 4 and in the discussion of appeasement in chapter 12 ('the Cliveden Set'). at the risk of some repetition, the story will be summarized here, because the American branch of this organization (sometimes called the 'Eastern Establishment') has played a very significant role in the history of the United States in the last generation.

Semi-Secret Round Table Groups Lobby for World Federation of English-Speaking Nations

"The Round Table Groups were semi-secret discussion and lobbying groups organized by Lionel Curtis, Philip H. Kerr (Lord Lothian), and (sir) William S. Marris in 1908-1911. This was done on behalf of Lord Milner, the dominant Trustee of the Rhodes Trust in the two decades 1905-1925. The original purpose of these groups was to seek to federate the English-speaking world along lines laid down by Cecil Rhodes (1853-1902) and William T. Stead (1849-1912), and the money for the organizational work came originally from the Rhodes Trust. By

1915 Round Table Groups existed in seven countries, including England, South Africa, Canada, Australia, New Zealand, India, and a rather loosely organized group in the United States (George Louis Beer, Walter Lippmann, Frank Aydelotte, Whitney Shepardson, Thomas W. Lamont, Jerome D. Greene, Erwin D. Canham of the *Christian Science Monitor*, and others). The attitudes of the various groups were coordinated by frequent visits and discussions and by a well-informed and totally anonymous quarterly magazine, *The Round Table*, whose first issue, largely written by Philip Kerr, appeared in November 1910.

Leaders Identified

"The leaders of this group were: Milner, until his death in 1925, followed by Curtis (1872-1955), Robert H. (Lord) Brand (brother-in-law of Lady Astor) until his death in 1963, and now Adam D. Marris, son of Sir William and Brand's successor as managing director of Lazard Brothers bank. The original intention has been to have collegial leadership, but Milner was too secretive and headstrong to share the role. He did so only in the period 1913-1919 when he held regular meetings with some of his closest friends to coordinate their activities as a pressure group in the struggle with Wilhelmine Germany. This they called their 'Ginger Group.' After Milner's death in 1925, the leadership was largely shared by the survivors of Milner's 'Kindergarten,' that is, the group of young Oxford men whom he used as civil servants in his reconstruction of South Africa in 1901-1910....

World Federation Financed by International Banking Fraternity

"Money for the widely ramified activities of this organization came originally from the associates and followers of Cecil Rhodes, chiefly from the Rhodes Trust itself, and from wealthy associates such as the Beit brothers, from Sir Abe Bailey, and (after 1915) from the Astor family. Since 1925 there have been substantial contributions from wealthy individuals and from foundations and firms associated with the international banking fraternity, especially the Carnegie United Kingdom Trust, and other organizations associated with J.P. Morgan, the Rockefeller and Whitney families, and the associates of Lazard Brothers and of Morgan, Grenfell, and Company.

The Chief Backbone

"The chief backbone of this organization grew up along the already existing financial cooperation running from the Morgan Bank in New York to a group of international financiers in London led by Lazard Brothers. Milner himself in 1901 had refused a fabulous offer, worth up to \$100,000 a year, to become one of the three partners of the Morgan Bank in London, in succession to the younger J. P. Morgan who moved from London to join his father in New York (eventually the vacancy went to E.C. Grenfell, so that the London affiliate of Morgan became known as Morgan, Grenfell, and Company). Instead, Milner became director of a number of public banks, chiefly the London Joint Stock Bank, corporate precursor

of the Midland Bank. He became one of the greatest political and financial powers in England, with his disciples strategically placed throughout England in significant places, such as the editorship of *The Times*, the editorship of *The Observer*, the managing directorship of Lazard Brothers, various administrative posts, and even Cabinet positions. Ramifications were established in politics, high finance, Oxford and London universities, periodicals, the civil service, and tax-exempt foundations.

Extending the Network after World War I

"At the end of the war of 1914, it became clear that the organization of this system had to be greatly extended. Once again the task was entrusted to Lionel Curtis who established, in England and each dominion, a front organization to the existing local Round Table Group. This front organization, called the Royal Institute of International Affairs, had as its nucleus in each area the existing submerged Round Table Group. In New York it was known as the Council on Foreign Relations, and was a front for J. P. Morgan and Company in association with the very small American Round Table Group. The American organizers were dominated by the large number of Morgan 'experts,' including Lamont and Beer, who had gone to the Paris Peace conference and there became close friends with the similar group of English 'experts' which had been recruited by the Milner group. In fact, the original plans for the Royal Institute of International Affairs and the Council on Foreign Relations were drawn up at Paris. The Council of the RIIA (which, by Curtis's energy came to be housed in Chatham House, across St. James's Square from the Astors, and was soon known by the name of this headquarters) and the board of the Council on Foreign Relations have carried every since the marks of their origin. Until 1960 the council at Chatham House was dominated by the dwindling group of Milner's associates, while the paid staff members were largely the agents of Lionel Curtis. *The Round Table* for years (until 1961) was edited from the back door of Chatham House grounds in Ormond Yard, and its telephone came through the Chatham House switchboard.

New York Branch

"The New York branch was dominated by the associates of the Morgan Bank. For example, in 1928 the Council on Foreign Relations had John W. Davis as president, Paul Cravath as vice-president, and a council of thirteen others, which included Owen D. Young, Russell C. Leffingwell, Norman Davis, Allen Dulles, George W. Wickersham, Frank L. Polk, Whitney Shepardson, Isaiah Bowman, Stephen P. Duggan, and Otto Kahn. Throughout its history the council has been associated with the American Round Tablers, such as Beer, Lippmann, Shepardson, and Jerome Greene.

Wall Street Contracts

"The academic figures have been those linked to Morgan, such as James T. Shotwell, Charles Seymour, Joseph P. Chamberlain, Philip Jessup, Isaiah Bowman and, more recently, Philip Mosely, Grayson L. Kirk, and Henry M. Wriston. The Wall Street contacts with these were created originally from Morgan's influence in handling large academic endowments. In the case of the largest of these endowments, that at Harvard, the influence was usually exercised indirectly through 'State Street,' Boston, which, for much of the twentieth century, came through the Boston banker Thomas Nelson Perkins.

Wall Street Law Firms

"Closely allied with this Morgan influence were a small group of Wall Street law firms, whose chief figures were Elihu Root, John W. Davis, Paul D. Cravath, Russell Leffingwell, the Dulles brothers, and, more recently, Arthur H. Dean, Philip D. Reed, and John J. McCloy. Other nonlegal agents of Morgan included men like Owen D. Young and Norman H. Davis.

Power Structure between London and New York

"On this basis, which was originally financial and goes back to George Peabody, there grew up in the twentieth century a power structure between London and New York which penetrated deeply into university life, the press, and the practice of foreign policy. In England the center was the Round Table Group, while in the United States it was J.P. Morgan and Company or its local branches in Boston, Philadelphia, and Cleveland. Some rather incidental examples of the operations of this structure are very revealing, just because they are incidental. For example, it set up in Princeton a reasonable copy of the Round Table Group's chief Oxford headquarters, All Souls College. This copy, called the Institute for Advanced Study, and best known, perhaps, as the refuge of Einstein, Oppenheimer, John von Neumann, and George F. Kennan, was organized by Abraham Flexner of the Carnegie Foundation and Rockefeller's General Education Board after he had experienced the delights of all souls while serving as Rhodes Memorial Lecturer at Oxford. The Plans were largely drawn by Tom Jones, one of the Round Table's most active intriguers and foundation administrators.

Influence Exerted Through Newspapers

"The American branch of this 'English Establishment' exerted much of its influence through five American newspapers (*The New York Times*, *New York Herald Tribune*, *Christian Science Monitor*, the *Washington Post*, and the lamented *Boston Evening Transcript*). In fact, the editor of the *Christian Science Monitor* was the chief American correspondent (anonymously) of *The Round Table*, and Lord Lothian, the original editor of *The Round Table* and later secretary of the Rhodes Trust (1925-1939) and ambassador to Washington, was a frequent

writer in the *Monitor*. It might be mentioned that the existence of this Wall Street, Anglo-American axis is quite obvious once it is pointed out. It is reflected in the fact that such Wall Street luminaries as John W. Davis, Lewis Douglas, Jock Whitney, and Douglas Dillon were appointed to be American ambassadors in London.

Third International Network Formed

"This double international network in which the Round Table Groups formed the semi-secret or secret nuclei of the Institutes of International Affairs was extended into a third network in 1925, organized by the same people for the same motives. Once again the mastermind was Lionel Curtis, and the earlier Round Table Groups and Institutes of International Affairs were used as nuclei for the new network. However, this new organization for Pacific affairs was extended to ten countries, while the Round Table Groups existed only in seven. The new additions, ultimately China, Japan, France, the Netherlands, and Soviet Russia, had Pacific councils set up from scratch. In Canada, Australia, and New Zealand, Pacific councils, interlocked and dominated by the Institutes of International Affairs, were set up. In England, Chatham House served as the English center for both nets, while in the United States the two were parallel creations (not subordinate) of the Wall Street allies of the Morgan Bank. The financing came from the same international banking groups, and their subsidiary commercial and industrial firms. In England, Chatham House was financed for both networks by the contributions of Sir Abe Bailey, the Astor family, and additional funds largely acquired by the persuasive powers of Lionel Curtis. The financial difficulties of the IPR Councils in the British Dominions in the depression of 1929-1935 resulted in a very revealing effort to save money, when the local Institute of International Affairs absorbed the local Pacific Council, both of which were, in a way expensive and needless fronts for the local Round Table Groups.

Chief Aims of the Semi-secret Organization

"The chief aims of this elaborate, semisecret organization were largely commendable: to coordinate the international activities and outlooks of all the English-speaking world into one (which would largely, it is true, be that of the London group); to work to maintain the pace; to help backward, colonial, and underdeveloped areas to advance toward stability, law and order, and prosperity along lines somewhat similar to those taught at Oxford and the University of London (especially the School of Economics and the Schools of African and Oriental Studies)

Gracious and Cultured Gentlemen

"These organizations and their financial backers were in no sense reactionary or Fascistic persons, as Communist propaganda would like to depict them. Quite the contrary. They were gracious and cultured gentlemen of somewhat limited social

experience who were much concerned with the freedom of expression of minorities and the rule of law for all, who constantly thought in terms of Anglo-American solidarity, of political partition and federation, and who were convinced that they could gracefully civilize the Boers of South Africa, the Irish, the Arabs, and the Hindus, and who are largely responsible for the partitions of Ireland, Palestine, and India, as well as the federations of South Africa, Central Africa, and the West Indies. Their desire to win over the opposition by cooperation worked with Smuts but failed with Hertzog, worked with Gandhi but failed with Menon, worked with Stresemann but failed with Hitler, and has shown little chance of working with any Soviet leader. If their failures now loom larger than their successes, this should not be allowed to conceal the high motives with which they attempted both....

Financier Jerome D. Greene

"One of the most interesting members of this Anglo-American power structure was Jerome D. Greene (1874-1959). born in Japan of missionary parents, Greene graduated from Harvard's college and law school by 1899 and became secretary to Harvard's president and corporation in 1901-1910. This gave him contacts with Wall Street which made him general manager of the Rockefeller Institute (1910-1912), assistant to John D. Rockefeller in philanthropic work for two years, then trustee to the Rockefeller Institute, to the Rockefeller Foundation, and to the Rockefeller General Education Board until 1939. For fifteen years (1917-1932) he was with the Boston investment banking firm of Lee, Higginson, and Company, most of the period as its chief officer, as well as with its London branch. As executive secretary of the American section of the Allied Maritime Transport Council, stationed in London in 1918, he lived in Toynbee Hall, the world's first settlement house, which had been founded by Alfred Milner and his friends in 1884. This brought him in contact with the Round Table Group in England, a contact which was strengthened in 1919 when he was secretary to the Reparations Commission at the Paris Peace Conference. Accordingly, on his return to the United States he was one of the early figures in the establishment of the Council on Foreign Relations, which served as the New York branch of Lionel Curtis's Institute of International Affairs.

Greene's Move from Stock Sales to Professorship

"As an investment banker, Greene is chiefly remembered for his sales of millions of dollars of the fraudulent securities of the Swedish match king, Ivar Kreuger. That Greene offered these to the American investing public in good faith is evident from the fact that he put a substantial part of his own fortune in the same investments. As a consequence, Kreuger's suicide in Paris in April 1932 left Greene with little money and no job. He wrote to Lionel Curtis, asking for help, and was given, for two years, a professorship of international relations at Aberystwyth, Wales. The Round Table Group controlled that professorship from its founding by David Davies in 1919, in spite of the fact that Davies, who was

made a peer in 1935, had broken with the Round Table because of its subversion of the League of Nations and European collective security.

"On his return to America in 1934, Greene also returned to his secretaryship of the Harvard Corporation and became, for the remainder of his life, practically a symbol of Yankee Boston, as trustee and officer of the Boston Symphony Orchestra, the Gardner Museum in Fenway Court, the New England Conservatory of Music, the American Academy in Rome, the Brookings Institution, the Rockefeller Foundation, and the General Education Board (only until 1939). He was also director of the Harvard Tercentenary Celebration in 1934-1937.

Greene's Service as Chief Conduit for Wall Street in the IPR

"Greene is of much greater significance in indicating the real influences within the Institutes of Pacific Relations than any Communists or fellow travelers. He wrote the constitution for the IPR in 1926, was for years the chief conduit for Wall Street funds and influence into the organization, was treasurer of the American Council for three years, and chairman for three more, as well as chairman of the International Council for four years.

The Most Powerful Influences in American and Modern World History

"Jerome Greene is a symbol of much more than Wall Street influence in the IPR. He is also a symbol of the relationship between the financial circles of London and those of the eastern United States which reflects one of the most powerful influences in twentieth-century American and world history. The two ends of this English-speaking axis have sometimes been called, perhaps facetiously, the English and American Establishments. There is, however, a considerable degree of truth behind the joke, a truth which reflects a very real power structure." (*Ibid.*, pp. 950-954, 955-956.)

Today's Global Network of International Affairs Institutes

Today this global network of international affairs institutes is currently advocating the establishment of a new world order or "new Imperial System.". This new world order, which has been slowly evolving, starting with the formation of the League of Nations, has gone through various stages of success and failure and is currently undergoing major revision. The institutes which make up this network today are as follows:

1. Royal Institute of International Affairs, London, England
2. Australian Institute of International Affairs, Canberra, Australia
3. Canadian Institute of International Affairs, Toronto, Canada

4. Guyana Institute of International Affairs, Georgetown, Guyana
5. Indian Council of World Affairs, New Delhi, India
6. New Zealand Institute of International Affairs, Wellington, New Zealand
7. Nigerian Institute of International Affairs, Lagos, Nigeria
8. Trinidad and Tobago Institute of International Affairs, Trinidad, West Indies
9. Centre D'Etudes et de Recherches Internationales de la Fondation Nationale des Sciences Politiques, Paris, France
10. Deutsche Gesellschaft für Auswärtige Politik e.V., Bonn, Federal Republic of Germany
11. Institut Français des Relations Internationales, Paris, France
12. Institut Royal des Relations Internationales, Brussels, Belgium
13. Istituto Affari Internazionali, Rome, Italy
14. Nederlands Genootschap voor Internationale Zaken, The Hague, Netherlands
15. Det Udenrigspolitiske Selskab, Copenhagen, Denmark
16. Council on Foreign Relations, Inc., New York, USA
17. Atlantic Institute for International Affairs, Paris, France
18. International Institute for Strategic Studies, London, England
19. Österreichische Gesellschaft für Außenpolitik und Internationale Beziehungen, Vienna, Austria
20. Institut za Mejdunarodni Otnoschenia i Sotsialisticheski Integratsia, Sofia, Bulgaria
21. The Chinese People's Institute of Foreign Affairs, Peking, China
22. Magyar Kulügyi Intézet, Budapest, Hungary
23. Japan Institute of International Affairs, Tokyo, Japan
24. World Affairs Council, Amman, Jordan

25. Norwegian Institute of International Affairs, Oslo, Norway
26. Pakistan Institute of International Affairs, Karachi, Pakistan
27. Polish Institute of International Affairs, Warsaw, Poland
28. L'Association de Droit International et de Relations Internationales de la Republique Socialiste de Roumanie, Bucharest Rumania
29. South African Institute of International Affairs, Johannesburg, South Africa
30. Utrikespolitiska Institutet, Stockholm, Sweden
31. The Graduate Institute of International Studies, Geneva, Switzerland
32. Institute of World Economy and International Relations, Academy of Sciences of the USSR, Moscow, USSR
33. Institute of International Politics and Economics, Belgrade, Yugoslavia ("Royal Institute of International Affairs: Report of the Council, 1978-1979," Chatham House, London, Appendix 14, pp. 52-56.)

Interlocking Educational Efforts of the Institutes and Other Organizations

The peoples of the world have grown accustomed to thinking internationally and interdependently as a result of years of educational efforts by the above groups. Together with efforts by such organizations as the Trilateral Commission, the European Economic Community, the Organization for Economic Cooperation and Development, the U.N. and its Specialized Agencies, the State Departments of the various nation-states, International Banks, Multinational Corporations, Media conglomerates, think-tanks such as the Brookings Institution, Foreign Policy Association, the large tax-exempt foundations, etc., whose frame of reference is global rather than national.

An outgrowth of the first two major attempts – the League of Nations and the United Nations – the new world order now being assembled is based on new political and economic objectives. The trilateral plan calls for an increase in coordination of the economic policies of the advanced countries. The economic summit is the main institution responsible for initiating convergence among the EC, Japan and the U.S.

The third try at world order led former French President Valery Giscard d'Estaing to say in 1979 the following: "I think we are heading toward an organization of the world that will be appreciably different from the organization we have known." (*Newsweek*, July 2, 1979, p. 32.)

23. Global Ideology, Humanistic Studies and the Aspen Institute

Many people have asked this question: Where do the leading officials of the Trilateral Commission, the White House, the Ford Foundation, the Rockefeller Foundation, the Exxon Corporation, the Brookings Institute, *The New York Times*, the *Observer International*, *Die Zeit*, the IBM Corporation, Goldman Sachs and Company, the International Institute for Strategic Studies, the Xerox Corporation, the Citibank, the U.N. University, the Milbank, the Tweed, the Hadley and McCloy firm, the World Bank, the Council on Foreign Relations, the University of Chicago, the University of Rome, Sophio University, the Coca-Cola Co., the Chase Manhattan Bank, etc., go for advanced seminars in global ideology and humanistic studies? The not-so-obvious answer is Aspen, Colorado. To those who travel in high circles Aspen is not just a mountain retreat – famous for its majestic mountains and exhilarating skiing – it is a place where the world's elite gather to consider the problems of governance and to set forth possible plans for the future of humanity.

The Aspen Institute: Humanistic in View and International in Scope

What is the Aspen Institute? According to Joseph E. Slater, former President of the Institute, it is "humanistic in view and international in scope." It brings together "leaders in thought and action from various spheres who should spend intensive work time together..." The goals of the Aspen Institute vary from "a deepening and broadening of public debate on vital social issues; to specific recommendations for new national and international policies and institutions in government, academia, and private enterprise; to proposals for new educational curricula and for innovative programs in the mass media." (*The Aspen Magazine*, Aspen, Colorado, December 1977, p. 12.)

The Development of the Institute

The Aspen Institute grew out of an international convocation held in Aspen, Colorado, in 1949, to celebrate the bicentennial of the birth of Johann Wolfgang von Goethe. The convocation was planned by the following three Chicagoans" Professor Giuseppe Antonio Borgese, Robert M. Hutchins, and Walter Paul Paepeke. One history of the beginning of the organization states:

"Professor Giuseppe Antonio Borgese of the University of Chicago originated the idea for the Goethe Convocation and was supported by Robert M. Hutchins, then president of the university. Walter Paul Paepeke, Chicago businessman and philanthropist, completed the trio of founders. It was Paepeke who urged the of Aspen, Colorado, as a place where people could breathe freely and think clearly. Mortimer Adler, of the University of Chicago Great Books program, was also an early planner and participant in the Institute and its Executive Seminars.

"Later Robert O. Anderson – chairman of the board of Atlantic Richfield Company, rancher, humanist, and civic leader – took over the direction of the Institute, and for more than fifteen years has guided its operations and helped shape its programs. Joseph E. Slater, formerly of the Ford Foundation and the Salk Institute, became president of the Aspen Institute in 1969 and, working with Mr. Anderson, has developed the Institute into the major international institution which it is today." (*The Aspen Idea*, University of Oklahoma Press, Norman, Oklahoma, 1975, cover.)

Influencing Government Decision at the National and International Level

As noted by Sidney Hyman, author of *The Aspen Idea*, "The Aspen Institute defines its own tasks, and proceeds with them in its own way. Yet its work as an 'early warning system' – in spotting emerging problems, in examining them from different perspectives, and in formulating alternative responses to them – has been increasingly valued by policy-makers and political executives in the United States government, in foreign governments, and in international agencies." (*Ibid.*, p. 6.)

Solving Problems from a Humanistic Viewpoint

According to Joseph E. Slater, the Aspen Institute is "humanistic" in nature and approach, whatever the subject. It seeks to solve problems "from a human-centered viewpoint." Hyman elaborates on this as follows:

"The Institute takes its unity from an idea and a commitment shared by the participants in its inner life, regardless of the city, nation, or continent where they otherwise make their home. The idea is, that any salient problem of contemporary human existence now shares a common frontier or merges with every other salient problem, and that any solutions framed for a particular problem must take into account its linkages to the rest. The commitment is to all the meanings packed into the strategic word "humanistic" – to search for ways in which 'man' in Martin Buber's phrase, 'can reach for the divine, not by reaching above the human, but by striving to become, in all that he does, more human.'" (*Ibid.*, p. 7.)

Humanism – the Second American Revolution

Inasmuch as the Aspen Institute is one of the most prominent organizations in the world promoting humanistic studies, it is appropriate to discuss here the concepts and philosophy of humanism.

The present century is being proclaimed by many as the "humanist century." In fact, John D. Rockefeller, II, the late elder Brother of David Rockefeller, has termed the transformation period we are now experiencing in the United States "the second American Revolution." Back in the 1970s he said:

"In my attempts to understand the realities of today, I have come more and more to accept the view that in the United States we are in the early stages of a revolution – that the currents of change are so profound it is not an exaggeration to regard them as revolutionary in nature.

America – Center of a 20th Century World Revolution

"This view, of course, did not originate with me. So many solid and responsible observers share it that it must be taken seriously even if one does not agree. It came perhaps most prominently in to the public consciousness in two books published since 1970. In one, *Without Marx or Jesus*, the French writer Jean-Francois Revel held that 'the revolution of the twentieth century will take place in the United States. It is only there that it can happen. And it has already begun. Whether or not it succeeds in the rest of the world depends on whether or not it succeeds first in America.'

"And, in the other, *The Greening of America*, Charles Reich wrote that 'there is a revolution coming. It will not be like revolutions of the past.... It is now spreading with amazing rapidity, and already our laws, institutions, and social structure are changing in consequence.'

Two Broad Sources of Revolutionary Change

"At the risk of oversimplifying, let me say that I see two very broad sources of revolutionary change in our society. One is people, individually and in groups, who are concerned about justice and freedom and receiving a fair share of the fruits of our society. The other is impersonal and materialistic, stemming from economic growth, new knowledge and technological innovations, international rivalries.

The Second American Revolution

"...I have chosen to call the revolution I see emerging the "Second American Revolution," for that anchors it in terms of time and place – here and now.

Desire of People for a Person-Centered Society

"...As for the content of this movement, it seems to me most expressive and accurate to refer to it as a *humanistic* revolution, for it springs from the first source of change mentioned above – the wants and needs and aspirations of people. It embodies a desire to create a person-centered society, to harness the forces of economic and technological change in the service of humanistic values. Its vision is that the ideals and purposes that give life its higher meaning may now finally be within our grasp.

The Nature of the Coming Revolution

"To use the dictionary definition of humanism, this revolution is characterized by a 'devotion to human welfare, interest in or concern for man.' It is a search for 'a doctrine, set of attitudes, or way of life centered upon human interests or values.' I believe this is very much in the directions perceived by Revel and Reich. A true revolution, Revel wrote, is a 'social, cultural, moral and even artistic transformation, where the values of the old world are rejected, where relations between social classes are reconsidered, where relations among individuals are modified, where the concept of the family changes, where the value of work, the very goals of existence are reconsidered.'

"Reich wrote that the revolution 'promises a higher reason, a more human community, and a new and liberated individual. Its ultimate creation will be a new and enduring wholeness and beauty – a renewed relationship of man to himself, to other men, to society, to nature, and to the land.'

"The world 'revolution' is overworked, particularly in the advertising world, but it is important to realize that what is being considered here is revolution in the real sense." (*The Second American Revolution*, New York: Harper and Row, 1973, pp. 4-6.)

Phasing Out Old-Fashioned Nationalism

Concerning the interdependence of man, Rockefeller stated:

"Men are seen as having the same basic needs and desires everywhere despite differences in customs, ethnic backgrounds, and beliefs. There is a growing recognition of the mutual dependence of people of all nations on a fragile environment, and their dependence on one another for sustenance and support. Therefore people are seen as fundamentally interdependent. This value emphasizes cooperation and mutual respect among peoples, and de-emphasizes the competitiveness, insularity, and chauvinism which have characterized much old-fashioned nationalism." (*Ibid.*, p. 47.)

The Philosophy of Humanism

The humanistic approach to the solution of problems has a long history. One of the most prominent humanist philosophers in America was Corliss Lamont, a graduate of Harvard and Columbia Universities and later an instructor at Cornell, at Harvard and Columbia Universities, and at the New School for Social Change. In 1965 he published a revised and enlarged version of *The Philosophy of Humanism* which traces the development of the growing humanist movement in America. Lamont outlined the philosophy of humanism as follows:

"Humanism has had a long and notable career, with roots reaching far back into the past and deep into the life of civilizations supreme in their day. It has had eminent representatives in all the great nations of the world. As the American historian Professor Edward P. Cheyney says, Humanism has meant many things: 'It may be the reasonable balance of life that the early Humanists discovered in the Greeks; it may be merely the study of the humanities or polite letters; it may be the freedom from religiosity and the vivid interest in all sides of life of a Queen Elizabeth...; it may be the responsiveness to all human passions of a Shakespeare or a Goethe; or it may be a philosophy of which man is the center and sanction. It is in the last sense, elusive as it is, that Humanism has had perhaps its greatest significance since the sixteenth century.'

Basic Principles of Humanism

"Humanism is a many-faced philosophy, congenial to this modern age, yet fully aware of the lessons of history and the richness of the philosophic tradition. Its task is to organize into a consistent and intelligible whole the chief elements of philosophic truth and to make the synthesis a powerful force and reality in the minds and actions of living men. What, then, are the basic principles of Humanism that define its position and distinguish it from other philosophic viewpoints? There are, as I see it, ten central propositions in the Humanistic philosophy.

Naturalistic Metaphysics

"First, Humanism believes in a naturalistic metaphysics or attitude toward the universe that considers all forms of the supernatural as myth; and that regards Nature as the totality of being and as a constantly changing system of matter and energy which exists independently of any mind or consciousness.

Man Is an Evolutionary Product

"Second, Humanism, drawing especially upon the laws and facts of science, believes that man is an evolutionary product of the Nature of which he is part; that his mind is indivisibly cojoined with the functioning of his brain; and that as an inseparable unity of body and personality he can have no conscious survival after death.

Ultimate Faith in Man

"Third, Humanism, having its ultimate faith in man, believes that human beings possess the power or potentiality of solving their own problems, through reliance primarily upon reason and scientific method applied with courage and vision.

Human Beings Possess Genuine Freedom of Choice

"Fourth, Humanism, in opposition to all theories of universal determinism, fatalism, or predestination, believes that human beings, while conditioned by the past, possess genuine freedom of creative choice and action, and are, within certain objective limits, the masters of their own destiny.

All Human Values Grounded in this Earthly Experience

"Fifth, Humanism believes in an ethics or morality that grounds all human values in this earthly experience and relationships and that holds as its highest goal this worldly happiness, freedom, and progress – economic, cultural, and ethical – of all mankind, irrespective of nation, race, or religion.

Continuous Self-Development

"Sixth, Humanism believes that the individual attains the good life by harmoniously combining personal satisfactions and continuous self-development with significant work and other activities that contribute to the welfare of the community.

Development of Art and Beauty

"Seventh, Humanism believes in the widest possible development of art and the awareness of beauty, including the appreciation of Nature's loveliness and splendor, so that the aesthetic experience may become a pervasive reality in the life of men.

Far-Reaching Social Programs

"Eighth, Humanism believes in a far-reaching social program that stands for the establishment throughout the world of democracy, peace, and a high standard of living on the foundations of a flourishing economic order, both national and international.

Complete Social Implementation of Reason and Scientific Method

"Ninth, Humanism believes in the complete social implementation of reason and scientific method; and thereby in the use of democratic procedures, including full freedom of expression and civil liberties, throughout all areas of economic, political, and cultural life.

Unending Questioning of Basic Assumptions

"Tenth, Humanism, in accordance with scientific method, believes in the unending questioning of basic assumptions and convictions, including its own.

Humanism is not a new dogma, but is a developing philosophy ever open to experimental testing, newly discovered facts, and more rigorous reasoning." (*The Philosophy of Humanism*, New York: Frederick Ungar Publishing Co., 1965, pp. 11-14.)

A Humanist Civilization

Lamont in the latter part of his book gives the reader a view of the emerging humanist civilization. It provides an excellent summary of the direction in which the humanist movement is traveling in America and throughout the world. Lamont states:

"A Humanist civilization is one in which the principles of the Humanist philosophy are dominant and find practical embodiment in laws, institutions, economics, culture, and indeed all the more significant aspects of individual and social life. This requires, as the eighth proposition of Humanism phrases it, 'a far-reaching social program that stands for the establishment throughout the world of democracy and peace on the foundations of a flourishing and cooperative economic order, both national and international.

Democratization of Education and Culture

"Humanism's thorough democratization of education and culture will result, I am convinced, in a cultural flowering comparable in achievement to the outstanding epochs of the past and going far beyond them in breadth of impact. A Humanist society will invest in education and general cultural activity sums proportionate to what present-day governments allocate to armaments and war. Particularly will schools and colleges, universities and research institutes, with their perennial budget difficulties, benefit from vastly enlarged financial resources. At long last educational institutions will be able to construct adequate physical plants and employ full teaching staffs at generous salaries. Thus current overcrowding will be done away with and the advantages of individual attention for all types of students realized to the full. It is generally recognized that the current crisis in American education is principally of an all-time high birth rate, inundating already inadequate schools, colleges, and universities.

Promoting Social Rather than Individualistic Aims

"Humanist education naturally accents social rather than individualistic aims. This implies both more attention to social studies, such as economics, politics (including civil liberties), and sociology, and inclusion in the curriculum of courses on ethics in order to train the youth of a nation in the broad Humanist attitudes of loyalty to the social group and to humanity. Humanism would also greatly extend the teaching of science and scientific method, putting emphasis on the student's learning to think straight, but not neglecting the inculcation of basic facts. There need be no opposition between science and the Humanities, from both of which the

Humanist draws inspiration, and no concentration upon one of them to the exclusion of the other.

Spreading an Awareness of Literature and Art

"The Humanist educational program will be a large factor in spreading a fundamental awareness of literature and art among all of the people. This does not mean any letdown in standards; on the contrary the effects will be just the opposite, by raising to unprecedented levels the average cultural understanding and by widening to an unprecedented extent the range of true artistic accomplishment on the part of both amateurs and professionals.

Complete Freedom of Expression

"The Humanist stress on complete cultural democracy and freedom of expression means that artists and writers should have the widest latitude in what they produce and say. A free art and a free literature are absolute essentials for a free culture. A Humanist civilization will contain many different and contradictory currents of thought, including non-Humanist and anti-Humanist tendencies. It certainly will not bring pressure on art and literature to conform to any official philosophy; or seek to force the novel, the theatre, and the motion picture to deal with Humanist themes. Those who so wish will criticize and satirize to their heart's content; and will be at entire liberty to present unconventional ideas that shock and stir the Humanist orthodox.

Removing Moralistic Restraints on Artists and Writers

"Narrowly moralistic restraints on artists and writers have ever been a bane in the history of the West; and those restraints have frequently stemmed from the supernaturalist's suspicion of earthly pleasures. As Professor Irwin Edman explains: 'The traditional quarrel between the artist and the puritan has been the quarrel between those who were frankly interested in the sensuous appearances and surfaces of things and those to whom any involvement or excitement of the senses was a corruption of the spirit of a deflection of some ordered harmony of reason. The history of censorship in the fine arts, if it could be told in full, would be found to revolve in no small measure around the assumed peril of corruption of the spirit by the incitements of the flesh through beautiful things.'

Embodying the Humanistic Viewpoint in Artistic and Literary Work

"One of the challenges to Humanist writers and artists will be to embody in artistic and literary work the general point of view for which Humanism stands; to express that sense of the beauty and glory of life which Michelangelo, for instance, so superbly portrayed in the Sistine Chapel through the medium of a subject matter centered upon the supernatural. There is nothing in the nature of art, literature, or poetry that makes treatment of the Christian myth lead to great creative

accomplishment and that prevents a similar result in the representation of the humanistic and naturalistic world-view. Genius is not confined to the delineation of any one philosophic position concerning the universe and man.

"Santayana enlarges upon our point. 'The Naturalistic poet,' he writes, 'abandons fairy land, because he has discovered nature, history, the actual passions of man. His imagination has reached maturity.... Throw open to the young poet the infinity of nature; let him feel the precariousness of life, the variety of purposes, civilizations, and religions even upon this little planet; let him trace the triumphs and follies of art and philosophy, and their perpetual resurrections – like that of the downcast Faust. If, under the stimulus of such a scene, he does not some day compose a natural comedy as much surpassing Dante's divine comedy in sublimity and richness as it will surpass it in truth, the fault will not lie with the subject, which is inviting and magnificent, but the halting genius that cannot render the subject worthily.'

Poets Should Verse the Basic Themes of Humanism

"Great poets in the past have given expression to some particular philosophy of religion. In a general sense we can call Homer the poet of Paganism, Lucretius the poet of Materialism, Dante the poet of Catholicism, Milton the poet of Protestantism, Goethe the poet of Romanticism and Wordsworth the poet of Pantheism. As yet, however, no poet equal in rank to these just mentioned has put into enduring verse the basic themes of Humanism as a philosophy.

Working Out Rituals and Ceremonies That Are Consistent with the Central Tenets of Humanism

"An essential function for artists and writers in a Humanist society will be to work out rituals and ceremonies that are consistent with the central tenets of Humanism. Such ceremonies should appeal to the emotions as well as the minds of the people, capturing their imagination and giving an outlet to their delight in pomp and pageantry. Present-day Humanists regard a festival like Christmas, which has already become secularized to a large extent in the United States, as a folk day symbolizing the joy of existence, the feeling of human brotherhood, and the ideal of democratic sharing. However, during the year's most intensive holiday season, many Humanists prefer to put their stress on New Year's Day rather than Christmas. Easter can be humanistically utilized to celebrate the rebirth of the vital forces of Nature and the renewing of man's own energies. In fact, according to the anthropologists, Easter probably originated in just such a way. Humanism will likewise naturally make much of the birthdays of outstanding leaders of the human race, and of other important anniversaries.

Changes Needed in Wedding and Funeral Services

"The average family in a Humanist civilization will also need wedding and funeral services based on a nonsupernatural philosophy of life. It seems reasonable to suppose that even today millions of families in America and throughout the world would like to have available definitely Humanist rituals for the occasions of marriage and death. Since such families are not usually acquainted with services of dignity and beauty that are in harmony with their ideas regarding life and destiny, they tend to fall back on the traditional supernaturalist ceremonies. One result of this has been that again and again rationalists, freethinkers, and Humanists are adjudged finally in the public eye as faithful supernaturalists because their funeral services are orthodox. A number of Humanist wedding and funeral services are already in use, such as those prepared by Ethical Culture and Humanist groups.

The Social Origin and Function of Art

"In general, Humanism believes in the social origin and function of art. Categorically asserting that art is for man's sake, it repudiates the superficial slogan of art for art's sake, which represented a natural reaction against the dreariness and ugliness of nineteenth-century industrialism. At the same time Humanism eschews the artificial distinction between the fine arts and the useful arts. This is another of the old, outworn dualisms and tends in the direction of an aristocratic, spectator view of art as residing in private mansions and public museums rather than as a pervasive complement of human work and play. So far as the products of labor are concerned, the Humanist theory is that they should embody a constant fusion of utility and grace, so that the quality of beauty will enter universally into the common objects of daily use.

"The mass production of industrial goods by machinery does not necessarily prevent the fulfillment of this aim. An excellent case can be made for claiming that the best designed American automobile is of as high a standard aesthetically as the ancient Greek chariot, modern china as the ancient Greek vase, and the twentieth-century skyscraper as the ancient Greek temple. The finest works of art in any case have always been socially functional in some sense. Where modern economic systems have held back and hampered the development of good art is particularly in their emphasis on the profit motive. The quality of artistic and literary creations cannot be justly assessed in terms of the money that they earn; and the general spirit prevalent in a predominantly money civilization is not conducive to the highest type of culture.

"All the great periods of cultural upsurge in the past have sprung from a definite material foundation, usually coinciding with or immediately following relative economic prosperity on the part of the particular people concerned. Greece of the Periclean Age, the European Renaissance, the flowering of New England in the nineteenth century, are cases in point. The lesson of history is, then that for a

dynamic and creative cultural life, a nation must have an adequate material base in the form of a healthily functioning economic system.

Human Rights Must Prevail over Property Rights

"It is not the purpose of this book to go into the details of economics. But it is necessary to state that Humanism, whatever the prevailing economic system may be, stands behind Abraham Lincoln's statement: 'Whenever there is a conflict between human rights and property rights, human rights must prevail.' Here we also return once more for guidance to what the Founding Fathers said in the Declaration of Independence. Instead of listing life, liberty, and *property* as the inalienable rights of men, as had John Locke, the English philosopher who so strongly influenced Jefferson and other early American statesmen, the signers of the Declaration substituted 'the pursuit of happiness' for 'property.' This was a most significant departure.

Humanism Stands for Comprehensive Social Planning

"Humanism also brings to the fore the concept of *planning* as a key to the establishment of a sound economic order, though individual Humanists vary as to how far they favor pushing the techniques of planning. Effective thinking is in essence a form of planning and the final solution adopted for any problem constitutes a plan of action. The first level of planning is, then, problem-solving thought. The second level is a person's general planning for himself and his future, his conscious attempt to foresee and control relevant circumstances. The wise individual who looks ahead will draw up an annual budget for himself. The preparation of a budget by individuals, families, businesses, colleges, governments, or any organization whatever is always an example of planning.

"The third level of planning is that which a family does for the well-being of its members, including planned parenthood through some form of birth control. Next we come to the planning of individual private businesses, whether small or large, with the central coordination of different departments and the itemized control of finances. Then there are various types of government planning, whether Federal, State, or municipal. A further and crucial stage is that of continuous national planning for the benefit of all the people and through the means of coordinating the entire industrial and agricultural life of a country with transportation, finance, and distribution. Contrary to a widespread impression, socio-economic planning is fully compatible with democratic procedures and can be utilized as a major instrument in furthering the goals of democracy.

World Planning for the Welfare of All Mankind

"World planning for the welfare of all mankind is the highest and broadest level of all. It becomes possible only with a tremendous extension of international organization. A successfully functioning United Nations, with its many specialized

agencies, such as the Economic and Social Council, the Food and Agriculture Organization, the World Health Organization, and UNESCO, obviously entails some degree of global planning and could lay the foundation for an integrated world economy and political federation.

An Eventual Community of Nations Embracing all Peoples

"Manifestly any practicable and constructive scheme of world planning depends on the elimination of international war, the most terrible and destructive malady that has ever afflicted the human race. Modern philosophers have been perennially concerned with the scourge of war. Kant's succinct essay *Perpetual Peace*, written in 1795, was among the best philosophic studies of the subject. Kant included among his prerequisites for international peace that every nation should have a republican constitution, that each people should possess national self-determination, that there should be general disarmament, and that there should be a federation of free states agreeing to abolish war forever. He also suggested an eventual 'State of nations' or world-republic, embracing all peoples. The Humanist, while disagreeing with the supernaturalistic aspects of Kant's philosophy, can certainly agree with his program for peace so far as it goes.

The Principle of Collective Security

"In the twentieth century the idea of a federation of free states became embodied in the League of Nations, which collapsed with the outbreak of World War II, and in the United Nations, which was created at the war's end. Both these organizations were founded upon the principle of collective security, namely that the peace-loving countries of the earth should bank together against any aggressor or potential aggressor and speedily put an end, by means of collective action and mutual assistance, to war or the threat of war. For Humanism the principle of collective security is a vital one in international affairs.

The Realistic Humanist Believes in at Least a Limited Economic Interpretation of History

"The realistic Humanist, however, believing in at least a limited economic interpretation of history, will look beyond fine-sounding peace pronouncements and formal peace organizations to those fundamental economic forces and relationships that make for war. We can find an economic interpretation of war as far back as Plato when he said, 'Wars are occasioned by the love of money.' Without contending that economics constitutes the whole story behind war, we can state that unless and until the different peoples of the world solve their basic economic problems centering around poverty, unemployment, inflation, depression, business monopoly, and the proper control of natural resources, there will be no lasting international peace.

All Nations Are Economically, Politically and Culturally Interdependent

"Clearly, too, the various nations, now some 120 in number, will not be able to work out their economic problems independently. All countries in this modern age are economically, politically, and culturally interrelated and interdependent. The time is past when any national unit can be sufficient unto itself and function prosperously and securely in isolation from the rest of mankind. A long time ago Plato stressed in his *Dialogues* the theme of the good individual in the good society, showing how difficult it is for a person to achieve virtue in a bad environment. Today it is relevant to talk about the good *nation* in the good *world*. No one country, however wealthy, populous, and powerful, can fulfill its finest potentialities until it can live in a decent international environment quite dissimilar from that of the present. A truly Humanist civilization must be a world civilization.

All Men Are Fellow Citizens of One World

"For the Humanist it follows that beyond all questions of national self-interest, every people has a moral obligation to humanity as a whole; a duty, which is also an opportunity, to make common cause with the other peoples of the earth in man's eternal quest for peace, plenty, and freedom. All individuals of all countries are together fellow citizens of our one world and fellow members of our one human family. The Americans, the Russians, the English, the Indians, the Chinese, the Germans, the Africans, and the rest are all part of the same perplexed, proud, and aspiring human race.

Humanism Is a Supranational, Panhuman Philosophy

"Humanism is not only a philosophy with a world ideal, but is an ideal philosophy for the world. It is quite conceivable that a majority of this planet's population could come to see the truth of its underlying principles. The Humanist viewpoint, surmounting all national and sectional provincialisms, provides a concrete opportunity for overcoming the age-long cleavage between East and West. Even those who cling to some form of supernaturalism can unite with Humanists, as they did during World War II, on a program of democracy and progress that reaches to the farthest corners of the earth. Humanism is a supranational, Panhuman philosophy of universal relevance; it is the philosophic counterpart of world patriotism.

"In my endeavor to present a compact, minimum prospectus of the Humanist philosophy, I have naturally had to deal very briefly with certain large topics.... I have tried to make explicit Humanism's clear and uncompromising answer on the major philosophic issues. In an era in which multitudes of people have lost the faith of their forebears and waver uncertainly in a no man's land of doubt concerning the ultimate problems of existence, Humanism takes an unequivocal position and offers an integrated and affirmative way of life. It provides modern man with a stable and meaningful frame of reference. The Humanist synthesis,

while of course gathering strength from other philosophies, has a unity and a viability of its own. And it represents a viewpoint, still in process of evolution, that can never be restricted to any final formulation. Naturalistic Humanism is a comprehensive idea-system, but it is an *open* system.

"Despite the appalling world wars and other ordeals through which humanity has passed during the twentieth century, despite the unprecedented menace of nuclear annihilation, Humanism takes the long view and remains hopeful of the decades to come. This philosophy, with its faith in man and in his ability to solve his problems through human intelligence and scientific techniques, holds to what might be called a reasoned optimism. It rejects the dead ends of despair as well as the daydreams of Utopia. I believe firmly that man, who has shown himself to be a very tough animal, has the best part of his career still before him. And there is at least the possibility that by the close of this century 'the Humanist breakthrough,' in Sir Julian Huxley's phrase, will spread throughout the globe to create a higher civilization of world dimensions.

Humanism Assigns to Man the Task of Being His Own Savior and Redeemer

"In the meaningful perspectives of the Humanist philosophy man, although no longer the darling of the universe or even of this earth, stands out as a far more heroic figure than in any of the supernaturalist creeds, old or new. He has become truly a Prometheus Unbound with almost infinite powers and potentialities. For his great achievements, man, utilizing the resources and the laws of Nature, yet without Divine aid, can take full credit. Similarly, for his shortcomings he must take full responsibility. Humanism assigns to man nothing less than the task of being his own saviour and redeemer. (*Ibid.*, pp. 273-283.)

Becoming Accustomed to Thinking in Global Terms

Along with being "humanistic in view," the Aspen Institute is "international in scope." Harlan Cleveland, former ambassador to NATO, State Department official and author of *The Third Try at World Order*, is a former head of the Institute's International Division. One of the Institute's program which is relatively new is titled "Global Perspectives in Education." Concerning this program Cleveland has noted that:

"We must introduce children much earlier in life to the nature of world politics and economics.... Children must come to understand how global systems of communications work. Also they must be aware of the dangers of the spread of nuclear systems and weapons.... Every citizen of the U.S. must become accustomed to thinking globally."

The Aspen Institute for Humanistic Studies

The following pamphlet describes the philosophy, purpose, concerns, programs and mode of operation of the Aspen Institute:

"The Aspen Institute for Humanistic Studies is a continuing effort to help shape a world in which there is individual freedom, creativity and fulfillment as well as social justice.

"This goal is difficult in an increasingly complex society. The Aspen Institute approaches it by bringing together some of the ablest people from all sectors of society, worldwide, to look for solutions to the most critical issues of our time. The Institute gives them a unique means to debate their convictions, reflect on the fate of their fellows and define policies needed to enhance the human condition – while there is still time to make choices.

"From such interaction can emerge a surprising consensus and programs for action. Thinking is modified and in this process mankind takes a step forward. The Institute becomes a catalyst by which people who make or influence decisions can convert ideas and values into action. It encourages individuals and institutions to reach beyond their self-interest and try to form a more human future.

Concerns and Programs

"The Institute is independent, international, nonpartisan and non-profit. It considers contemporary issues from a human-centered viewpoint.

"Ideas are not examined in the abstract; technologies are not dissected as scientific puzzles. At the Aspen Institute, the weight given to ideas depends on their humanistic value to individuals and society. Ideas are seen as weapons in the constant struggle to improve the quality of life and to reinforce the always threatened underpinnings of freedom.

"For nearly 30 years the Institute has conducted its Executive Seminar Program. In it leaders from business and labor and the academic and public sectors discuss the relevance of the great ideas of mankind to the unsettled and unsettling issues of today. The Executive Seminar Program, now on a year-round basis for the first time, is adding seminars dealing with various cultures, the corporation and society, and special themes.

"The Institute has ongoing programs that concentrate on five of the most critical areas of contemporary concern:

"Communications and Society seeks to improve the standards, content, diversity and outreach of the mass media.

"Justice, Society and the Individual strives to clarify concepts of justice; search for better means of delivering justice; advance dispute resolution; define the limits to dissent, and strengthen the effectiveness of the distribution of justice.

"Science, Technology and Humanism examines how science can work as a humanitarian as well as a utilitarian force in society. It attempts to optimize the role of science and technology in improving global well being; increase scientific literacy; and, mindful of the balance between needs and risks, nurture innovation and creativity in science.

"International Affairs covers a range of concerns from arms control to concepts of basic human needs and fulfillment and the impact of the interrelationship between the industrialized countries and the developing nations. It attempts to identify the essential elements of a new world order and the management of our interdependent world.

"Education for a Changing Society explores the adequacy of formal education, the possibilities for life-long learning and the evolution of new expressions of the drive for knowledge.

"As an emerging theme of overarching importance, the Institute is undertaking a sustained examination of a series of crucial issues of Governance: how societies and their governments and institutions, public and private, national and international, can better respond to the often conflicting pressures for social justice, fairness, efficiency and individual freedom. Under this general title of Governance, the Institute focuses on such subjects as the Energy Crisis, Financing the Future, Human Rights, The Corporation and Society, Culture and Modernization, and Policies and Structures of Peace. The preeminent setting for dealing with Governance issues is the Institute's newly-acquired Wye Plantation outside of Washington, D.C.

The Aspen Institute: A Worldwide Organization

"The Aspen Institute is directed by an international, 36-person Board of Trustees, representing all sectors of society and buttressed by a global network of Special Advisors. The Institute is managed by a leadership determined to perpetuate the integrity of the Aspen Institute idea; and it is supported by diverse foundations, tuition, individuals, corporations and, to a smaller extent, by grants from national and international public organizations.

"Its central office is in New York City and it has major centers of activity in Maryland outside Washington, D.C., and in Aspen, Colorado (where it all began nearly 30 years ago). Its programs and projects are based in Cambridge, Massachusetts; Princeton, New Jersey; Washington, D.C., Boulder, Colorado, and Palo Alto, California.

"Recognizing that the world is a global community, the Institute has become increasingly international. In Berlin, it has a major center, fully staffed and integrated into all the Institute's programs. It also maintains centers in Tokyo and Hawaii. It has added a multi-year project on the Middle East, conducts seminars on Asian thought and has begun a Latin American program.

Past Results and Future Goals

"The results of Institute activities take many forms, including among others; the creation of new communities of common interest, nationally and internationally, despite the growing compartmentalization of society; the broadening and deepening of public debate and understanding; the encouragement of more responsive institutions; the capability for giving more informed testimony; the evolution of new curricula and research; the stimulation of the growth and training of talented young people; the dissemination of ideas through a variety of publications, and improved decision making with more effective citizen participation.

"The Experiment that is the Aspen Institute is constantly changing and flexible to meet the new and shifting problems for which mankind must find answers.

"The Institute believes that people of talent and good will can make a difference. It is rooted in the conviction that, in today's world, society must be mindful of its past, engaged in the challenges of the present, and help to serve as trustees for the future." (Official Pamphlet, Aspen Institute for Humanistic Studies, New York, no date.)

24. Council on Foreign Relations – Elitism and the Eastern Establishment

I. History of the Council on Foreign Relations and Its Influence in Foreign Affairs

One of the most extraordinary institutions in America is the prestigious Council on Foreign Relations. Relatively unknown outside influential circles, this elite group of planners and policy makers has had substantial impact on U.S. foreign policy. Sometimes referred to as the "Eastern Establishment," this unique group is located in New York City. The Council's membership includes some of the most powerful men in the western world – internationally renowned corporate and financial leaders, high-level academics, leading media and publishing figures. From all outward appearance the Council commands the power, wealth, and prestige to beckon allegiance not only from State Department officials and other lesser governmental officials but also from the President and his chief advisors.

Fellow Members Implement Council Policy

The Council has never been a mere policy formulator. It has met with a good deal of success in having its carefully drawn recommendations executed by governmental officials in Washington. More often than not these governmental figures have turned out to be fellow Council members.

Influence of the Council's Study Groups

The role which the Council's study groups have played in the formulation of official U.S. policy has not received adequate attention. It is in this area that the Council's power and influence is most obvious.

Because the Council's viewpoint is international and elitist, it has been both praised and maligned by journalists and critics.

Over the years a number of writers have pointed out the dominant role which the Council has played in guiding U.S. foreign policy. Concerning the influence of this self-perpetuating foreign-policy elite, Augus Deming and Tony Fuller have stated:

"Since the end of World War II, U.S. foreign policy has been dominated largely by the circle of influential men who belong to New York's Council on Foreign Relations. From Franklin D. Roosevelt to Jimmy Carter, every President has recruited council luminaries – its membership roll is a sort of Who's Who of the Eastern Establishment elite – for high-level diplomatic trouble-shooting missions or for top jobs in his Administration. But the Council is not universally admired. Some outsiders view it as a kind of shadow government; others dismiss it as a private club where aging foreign-policy mandarins pontificate over tea and cookies. Both views are exaggerated, but of late even some of the Council's elders have grown alarmed by a sense of their organization's waning influence....

Council Members in High Places in Washington

"...Council members are still found in high places in Washington. Four key members are now officials of the Carter Administration: Secretary of State Cyrus Vance, National Security Adviser Zbigniew Brzezinski, Treasury Secretary Michael Blumenthal* and Arms Negotiator Paul Warnke.* But when it comes to providing fresh talent and innovative concepts on such pressing global problems as food, energy, and population control, it is the Trilateral Commission – a newer and younger organization with members drawn from North America, Japan and Europe – that is considered the real 'supply depot' for the Carter Administration." ("Foreign Policy: Mandarins in Trouble," *Newsweek*, March 28, 1977, p. 40.)

The Most Influential Group in America

Professor Thomas R. Dye of Florida State University, in a book entitled *Who Is Running America? Institutional Leadership in the United States*, also points out the Council's significant role:

"...The most influential policy planning group in foreign affairs is the Council on Foreign Relations. It was founded in 1921 and supported by grants from the Rockefeller and Carnegie Foundations and later the Ford Foundation. Its early directors were internationally minded Wall Street corporation leaders such as Elihu Root (who was secretary of state); John W. Davis (1928 Democratic presidential nominee); and Paul Cravath (founder of the famous law firm of Cravath, Swaine & Moore).

Building a Consensus on Foreign Policy Issues Among Elites

"The CFR is designed to build consensus among elites on foreign policy questions. Its commissions make investigations concerning foreign policy, and set major directions of official U.S. policy. This council largely determines when reassessments of U.S. foreign or military policy are desired. Its studies are usually made with the financial support of foundations. The history of the CFR accomplishments are dazzling: it developed the Kellogg Peace Pact in the 1920s, stiffened U.S. opposition to Japanese Pacific expansion in the 1920s, designed major portions of the United Nations' charter, and devised the 'containment' policy to halt Soviet expansion in Europe after World War II. It also laid the groundwork for the NATO agreement and devised the Marshall plan for European recovery.

Foreign Affairs – the Unofficial Mouthpiece of U.S. Foreign Policy

"CFR publishes the journal *Foreign Affairs*, considered throughout the world the unofficial mouthpiece of U.S. foreign policy. Few important initiatives in U.S. foreign policy are not first outlined in articles in this publication. It was in *Foreign Affairs* in 1947 that George F. Kennan, chief of the Policy Planning Staff of the State Department, writing under the pseudonym of 'X', first announced U.S. intentions of 'containing' Communist expansion in the world.

The Council's Corporate Service

"Recognizing that U.S. corporations make foreign policy, as well as the U.S. government, the CFR provides 'corporation services' for large fees; these sources include consultation, information, and the right to nominate 'promising' young executives to attend its semi-annual seminars. Its corporate members include Chase Manhattan, General Motors, Ford Motors, Continental Can, Gulf Oil, General Electric, and other giant corporations – particularly those with overseas interests.

Influential Council Members

"...There are few individuals in top positions in American institutions with an interest in foreign affairs who are not CFR members. The CFR's list of former members include every person of influence in foreign affairs from Elihu Root, Henry Stimson, John Foster Dulles, Dean Acheson, Robert Lovett, George F. Kennan, Averell Harriman, and Dean Rusk, to Henry Kissinger.

The Board of Directors in the 1970s

"In the early 1970s, its board of directors included these names:

David R. Rockefeller, Chairman of the Board, Chase Manhattan Bank;

John J. McCloy, Senior Partner, Milbank, Tweed, Hadley & McCloy;

Gabriel Hauge, President, Manufacturers Hanover Trust Co.; former editor of *Business Week*;

Thomas K. Finletter, Former Secretary of the Air Force and U.S. Ambassador to NATO;

Phillip D. Reed, Former Chairman of the Board, General Electric Co.;

Najeeb E. Halaby, President, Pan American World Airlines;

Cyrus Vance, Chairman of the Board of Dillman Bead & Co.; Director of Chase Manhattan;

Alfred C. Neal, President of the Committee on Economic Development;

Hedley Donovan, Editor in Chief, Time, Inc.;

Grayson Kirk, President of Columbia University;

Henry M. Wriston, President of Brown University; Chairman of the American Assembly;

William P. Bundy, Senior Partner, Covington & Burling; Former Deputy Director, CIA; Assistant Secretary of Defense;

McGeorge Bundy was special assistant to President Johnson for National Security Affairs, and president of the Ford Foundation;

Arthur H. Dean, Senior Partner, Sullivan and Cromwell; Chief, U.S. Negotiation, Korean Armistice; and Nuclear Test Ban Treaty.

The Council's Pervasive Influence throughout the Government

"Political scientist Lester Milbraith observes that the influence of CFR throughout the government is so pervasive that it is difficult to distinguish CFR from government programs: 'The Council on Foreign Relations, while not financed by government, works so closely with it that it is difficult to distinguish Council actions stimulated by government from autonomous actions.' (Quoted in James N. Rosenau, ed., *Domestic Sources of Foreign Policy*, New York Free Press, 1967.)

The Chief Recruiting Ground for Cabinet Level Officials

"The popular journalist and observer of presidential elections, Theodore H. White, reported of the Council:

"Its roster of members has for a generation, under Republican and Democratic administrations alike, been the chief recruiting ground for cabinet level officials in Washington. among the first eighty-two names on a list prepared for John F. Kennedy for staffing his State Department, at least sixty-three were members of the Council. When, finally, he made his appointments, both his Secretary of State (Rusk, Democrat) and Treasury (Dillon, Republican) were chosen from Council members: so were seven assistant and under-secretaries of State, four senior members of Defense,...as well as two members of the White House Staff (Schlessinger, Democrat; Bundy, Republican). (*The Making of the President*, 1964, New York, Atheneum.)" (Thomas Dye, *Who Is Running America?*, Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1976, pp. 110-112.)

The Council Is Virtually Unknown Outside a Narrow Circle of East Coast Insiders

J. Anthony Lukas, in an outline of the history of the Council, has pin-pointed the attacks mounted against the Council from the right and left because of its powerful influence in formulating U.S. foreign policy.

"One of the most remarkable aspects of this remarkable organization, whose 1,500 members include most figures who have significantly influenced American foreign policy in the last 30 years, is how little is known about it outside a narrow circle of East Coast insiders. So far as I could determine, no graduate student has written a Ph.D. thesis on it. Most newspaper references are brief notations that some notable has spoken there (omitting what he said, for all Council proceedings are off the record).

Suspicious Raised Concerning the Council

"But this secrecy has long aroused the suspicions of the far left and the far right; for years, the Council has burned bright in the demonology of both extremes. This should not be surprising. The late Richard Hofstadter has traced 'the paranoid style

in American politics,' a persistent strain in the national temperament which feels threatened by vast, hidden conspiracies with tentacles reaching down from high places. The 'conspirators' may be anyone – Masons, Catholics, international bankers, munitions makers, Jews, Negroes or Communists – so long as they are regarded as powerful and clandestine. The Council fits the bill perfectly.

A View of the Council from the Left

"On the left, the Council is viewed as Wall Street's junta for external affairs. Analysts of the Soviet press say the Council crops up more regularly in *Pravda* and *Izvestia* than it does in the *New York Times*.

A View of the Council from the Right

"But the most feverish fulminations have issued from the right. The right-wing attack began with Senator Joseph McCarthy. Though his nominal targets were Communists in government, by the fifties few Communists retained important positions, and as McCarthy bulled ahead it became clear that his real target was the Eastern Establishment, which had run the nation's foreign policy for decades and thus could be blamed for 'losing' China and Eastern Europe.

Senator McCarthy Attacked Council Members

"McCarthy never explicitly attacked the council (as he did the closely allied Institute of Pacific Relations). But many of those he denounced were or had been Council members: Frederick Vanderbilt Field, Alger Hiss, Lauchlin, Currie, Owen Lattimore, Philip Jessup, Charles Bohlen and Dean Acheson. Although Field was undoubtedly a Communist and Hiss was convicted of perjury, McCarthy had little on the others.

Richard Rovere's Evidence of the Existence of an American Establishment

"...More temperate observers began to notice the Council, too. At first they trod carefully. The most provocative hint at the Council's role came in an article so delicately poised between parody and gravity that few readers could tell how much to believe. This was Richard Rovere's 1962 treatise, which argued that there was indeed an 'American Establishment.' Much of the evidence Rovere adduced from his thesis was a delicious spoof of academic scholarship. Mixed with his playfulness, though, were some nuggets which he now says he meant in essential seriousness. One reads: 'The directors of the Council on Foreign Relations make up a sort of Presidium for that part of the Establishment that guides our destiny as a nation.'

Rovere Discussed the Eastern Establishment in Parody Form

"It is significant that Rovere chose to make his point in parody form. For the egalitarian myth was still so strong then that straightforward advocacy of the Establishment thesis would probably have been dismissed.

Establishment Studies

"Since then, the concept has found wide acceptance. The field Rovere jokingly called 'Establishment Studies' has come into being, largely through the work of C. Wright Mills ('The Power Elite'). Mills largely ignored the Council, but Professor G. William Domhoff, a disciple, has studied it and concluded that through it 'the power elite formulates general guidelines for American foreign policy and provides the personnel to carry out this policy.'

Founders of the Council Constituted an Elite

"Whatever the Council may be today, the men who formed it 50 years ago certainly constituted an elite, virtually the only private Americans who knew anything about foreign relations. They were members of 'The Inquiry,' the group of scholars Col. Edward M. House assembled in 1918 to prepare for the Paris peace conference.

The Decision to Form an Institute of International Affairs

"Realizing how much even they had to learn about Balkan politics and Japanese armaments, some of these American advisers – notably James Shotwell, Archibald Cary Coolidge, Whitney Shepardson and Gen. Tasker Bliss – began meeting with their British counterparts in Paris. By June 1919, they had resolved to form an Institute of International Affairs, with branches in Britain and the United States.

The Formation of Chatham House and the Council

"The British branch was soon opened in London, where it still functions as Chatham House. But the American project languished until 1921, when a merger was arranged with a genteel discussion club known as the Council on Foreign Relations, which had been founded in 1918 by leading New York bankers and lawyers to hear dinner speeches on trade and international finance.

Early Council Members Backed Wilson and the League of Nations

"As supporters of Wilson, most early Council members strongly backed the League of Nations. The Senate's rejection of League membership and the swell of isolationist sentiment were profoundly disillusioning to them and they resolved to awaken America to its world-wide responsibilities.

The Council's Chief Role: Developing Support for U.S. Policy

"Even during the isolationist twenties, however, the Council never developed a tradition of challenging Government policy. 'Men traumatized by the League drama naturally saw the problem in those terms,' says Stanley Hoffman, professor of government at Harvard. 'When the United States took the lead in the world, the American people didn't follow. Thus, the Council saw its role chiefly as developing support for U.S. policy. At best, its role has been to suggest arabesques on the main design, never to challenge it.'

The Council's Long-Range Planning for the State Department

"World War II gave the Council a chance to play just this role and in an unusually cozy relationship with Washington. In September 1939, the Council offered to undertake long-range planning for the hard-pressed State Department. The Department accepted, and five study groups – on Security and Armaments, Economics and Finance, Politics, Territories and Peace Aims – were established. Over the next six years, financed by the Rockefeller Foundation, they flooded the State Department with 682 memoranda.

The Council Studies' Impact on Policy

"The studies soon had an impact on policy. In March, 1940, one group produced a report on the strategic importance of Greenland, warning that the Danish island might fall under German control if Germany overran Denmark. It urged the United States to head this off by asserting that the island came under the Monroe Doctrine. The memorandum found its way to the White House. Three weeks later, Germany invaded Denmark, and President Roosevelt promptly announced that Greenland belonged to the American continent. Other Council studies helped shape the United Nations and the World Bank and influenced the decision not to remove the Japanese Emperor.

The Council Groups Were Absorbed into the State Department

"By 1942, the Council groups were virtually absorbed into the State Department. This extraordinary role in the development of public policy was explained by the Council's leadership after the war in a report which began:

"'As the foreign responsibilities of the United States increase, the participation of its citizens in influencing its foreign policies should increase also. Without such participation there are bound to be violent fluctuations in public opinion (as happened, for example, in the years 1918-20).'

Distrust of American Public Opinion Runs throughout the Council's History

"Here again is the distrust of American public opinion which runs as a leitmotiv through the Council's history, and particularly the fear that, without proper leadership, the public would go isolationist in 1945 just as it had in 1920.

Council Members Began Implementing Policy in 1945

"Although the Council's role as an institution diminished with the disbanding of the study groups in 1945, the men who had played such a key role in framing the country's postwar internationalist policies moved swiftly into the job of implementing them. From 1945 well into the sixties. Council members were in the forefront of America's globalist activism: the United Nations organizational meeting in San Francisco (John McCloy, Hamilton Fish Armstrong, Joseph Johnson, Thomas Finletter and many others); as ambassadors to the world body (Edward Stettinius, Henry Cabot Lodge, James Wadsworth and all but three others); the U.S. occupation in Germany (Lucius Clay as military governor, McCloy again and James Conant as High Commissioners); NATO (Finletter again, Harlan Cleveland, Charles Spofford as U.S. delegates).

American Foreign Policy Has Remained in the Hands of Council Members

"For the last three decades, American foreign policy has remained largely in the hands of men – the overwhelming majority of them. Council members – whose world perspective was formed in World War II and in the economic reconstruction and military security programs that followed."

The Council's Pronounced European Bias

Lukas continues:

"The Council has long had a pronounced European bias. Its leading figures have remained unswervingly loyal to the vision of a United Europe in which Adenauerish anti-Communism is the guiding ideology, Gaullism a passing aberration and the Christian Democrats the ruling elite....

176 Council Members Were in Government Service in 1966

"...Five years ago (1966), the Council said 176 of its members were then in Government service and more than 400 others had been at some time since World War II...." (*New York Times Magazine*, November 21, 1971, pp. 34ff.)

Council Membership and Financial Support Are Drawn from the Internationalist Wing of American Business

Lukas quoted Raymond Vernon, a Council member and professor at the Harvard Business School, as saying:

"Certainly the Council is influenced by the fact that its membership and financial support are drawn heavily from the internationalist wing of the American business." (*Ibid.*)

Bringing Council Members into Government Service

John Franklin Campbell, another writer who has pointed out the significance of the Council, has noted the following regarding the influx of Council members into the government.

"...John McCloy, for seventeen years chairman of the Council's board of directors and also board chairman of the Chase Manhattan Bank, recalled that whenever the War Department in the early 1940's needed a man, 'we thumbed through the roll of Council members and put through a call to New York.'

"From that day to this, the Council has molded the supported government policies, and been a recruiting center for top Washington jobs...." (New York, September 20, 1971.)

II. Current and Future Influence of the Council

As noted in the foregoing selected excerpts, the Council has had tremendous impact on U.S. foreign policy since its inception in the 1920s. A history of council ideology closely parallels the last seventy five years of U.S. foreign policy. In fact, it is almost impossible to study the one without the other. Recently the Council completed a project which in every sense had as much impact as the war and peace studies in the 1940s. This project, known as the 1980s Project, promises to influence U.S. foreign relations for many years to come.

Although the Studies Program has received little attention outside establishment circles it was one of the most ambitious projects on "governance" in the western world.

Its purpose was to explore the nature of political, economic and social arrangements among nations that would be desirable during the 1980s and 1990s. A Council member describes this monumental study project as follows:

"The 1980s Project...is a major research and publication effort devoted to international policy issues of the next decade. Its purpose is to prescribe better

ways of handling some of the important issues that are likely to become the subject of international contention in the 1980s and beyond....

"The 1980s Project Studies do not -- concentrate on American interests and policies alone. The 80 authors, over one-quarter of whom are non-American, were asked to focus on general rather than sectional welfare and security, and to take into account the likely realities of domestic policies in the Principal societies affected by any given issue. The task set for the authors was to avoid simply extrapolating present trends into the future. Rather they were to describe how trends might be steered toward a particular desirable future outcome...." ("The 1980s Project: A General Description, "Official Document, Council on Foreign Relations, no date, pp. 1-2.)

Identifying Future Conditions

Richard H. Ullman, former director of the 1980s Project for the Council, discusses the studies in greater depth: "The 1980s Project had its origins in the widely held recognition that many of the assumptions, policies, and institutions that have characterized international relations during the past 30 years are inadequate to the demands of today and foreseeable demands of the period between now and 1990 or so. Over the course of the next decade, substantial adaptation of institutions and behavior will be needed to respond to the changed circumstances of the 1980s and beyond. The Project seeks to identify those future conditions and the kinds of adaptation they might require. It is not the Project's purpose to arrive at a single or exclusive set of goals. Nor does it focus upon the foreign policy or national interests of the United States alone. Instead, it seeks to identify goals that are compatible with the perceived interests of the most states, despite differences in ideology and in level of economic development.

Published Products of the 1980s Project

"The published products of the Project are aimed at a broad readership, including policy makers and potential policy makers and those who would influence the policy-making process, but confined to no single nation or region. The authors of Project studies were therefore asked to remain mindful of interests broader than those of any one society and to take fully into account the likely realities of domestic politics in the principal societies involved. All those who have worked in the Project, however, have tried not to be captives of the status quo; they have sought to question the inevitability of existing patterns of thought and behavior that restrain desirable change and to look for ways in which those patterns might in time be altered or their consequences mitigated.

300 Participants Are Involved in the Project

"The 1980s Project is at once a series of separate attacks upon a number of urgent and potentially urgent international problems and also a collective effort,

involving a substantial number of persons in the United States and abroad, to bring those separate approaches to bear upon one another and to suggest the kinds of choices that might be made among them. The Project involves more than 300 participants. A small central staff and a steering Coordinating Group have worked to define the questions and to assess the compatibility of policy prescriptions. Ten working groups of specialists and generalists have been convened to subject the Project's studies to critical scrutiny and to help in the process of identifying interrelationships among them.

The Largest Single Research and Studies Effort Ever Undertaken by the Council

"The 1980s Project is the largest single research and studies effort the Council on Foreign Relations has undertaken in its 55-year history, comparable in conception only to a major study of the postwar world, the War and Peace Studies, undertaken by the Council during the Second World War. At that time, the impetus to the effort was the discontinuity caused by worldwide conflict and the visible and inescapable need to rethink, replace, and supplement many of the features of the international system that had prevailed before the war.

Discontinuities in Today's World Briefly Command the Spotlight of Public Attention

"The discontinuities in today's world are less obvious and, even when occasionally quite visible – as in the abandonment of gold convertibility and fixed monetary parities – only briefly command the spotlight of public attention. That new institutions and patterns of behavior are needed in many areas is widely acknowledged, but the sense of need is less urgent – existing institutions have not for the most part dramatically failed and collapsed. The tendency, therefore, is to make do with outmoded arrangements and to improvise rather than to undertake a basic analysis of the problems that lie before us and of the demands that those problems will place upon all nations.

The Need for Serious, Integrated Forethought

"The 1980s Project is based upon the belief that serious effort and integrated forethought can contribute – indeed, are indispensable – to progress in the next decade toward a more humane, peaceful, productive, and just world. And it rests upon the hope that participants in its deliberations and readers of Project publications – whether or not they agree with an author's point of view – may be helped to think more informedly about the opportunities and the dangers that lie ahead and the consequences of various possible courses of future action.

Funding of the 1980s Project

"The 1980s Project has been made possible by generous grants from the Ford Foundation, the Lilly Endowment, the Andrew W. Mellon Foundation, the Rockefeller Foundation, and the German Marshall Fund of the United States." (Fred Hirsch, Michael W. Doyle and Edward L. Morse, *Alternatives to Monetary Disorder*, McGraw-Hill Book Col., 1977, pp. ix-xi, 1977)

A list of books derived from the 1980s Project include:

1. Miriam Camps & Catherine Gwin, *Collective Management: The Reform of Global Economic Organizations*.
2. Lawrence T. Caldwell & William Diebold, Jr., *Soviet – American Relations in the 1980s*.
3. William Diebold, Jr., *Industrial Policy as an International Issue*.
4. Lincoln Gordon, *Growth Policies and the International Order*.
5. Robert J. Gordon & Jacques Pelkmans, *Challenges to Interdependent Economies: The Industrial West in the Coming Decades*.
6. Ruth W. Arad, Uzi B. Arad, Rachel McCulloch, Jose Pinera & Ann L. Hollock, *Sharing Global Resources*.
7. Colin Legum, I William Zartman, Steven Langdon & Lynn K. Mytelka, *Africa in the 1980s*.
8. Roger D. Hansen, *Beyond the North-South Stalemate*.
9. Jorge I. Domingues, Nigel S. Rodley, Bryce Wood & Richard Falk, *Enhancing Global Human Rights*.
10. Oystein Noreng, *Oil Politics in the 1980s: Paterns of International Cooperation*.
11. Georges Tapinos & Phyllis T. Piotrow, *Six Billion People: Demographic Dilemmas and World Politics*.
12. John Waterbury & Ragaei El Mallakh, *The Middle East in the Coming Decade: From Wellhead to Well-Being*.
13. W. Howard Wriggens & Gunnar Adler-Karlsson, *Reducing Global Inequalities*

14. Albert Fishlow, Carlow F. Diaz-Aljandro, Richard R. Fagan & Roger D. Hansen, *Rich and Poor Nations in the World Economy*.
15. Anne Hessing Cahn, Joseph J. Kruzel, Peter M. Dawkins & Jacques Huntzinger, *Controlling Future Arms Trade*.
16. Guy J. Pauker, Frank H. Golay & Cynthia H. Enloe, *Diversity and Development in Southeast Asia: The Coming Decade*.
17. David C. Gompert, Michael Mandelbaum, Richard L. Garwin & John H. Barton, *Nuclear Weapons and World Politics: Alternatives for the Future*.
18. Allen S. Whiting & Robert F. Dernberger, *China's Future: Foreign Policy and Economic Development in the Post-Mao Era*.
19. Fred Hirsch, Michael W. Doyle & Edward L. Morse, *Alternatives to Monetary Disorder*.
20. Ted Greenwood, Harold A. Feiveson & Theodore B. Taylor, *Nuclear Proliferation: Motivations, Capabilities, and Strategies for Control*.
21. Stephen Green, *International Disaster Relief: Toward a Responsive System*.

The Most Influential Publication in the U.S.

The Council's influence is also evidenced today by its quarterly journal, *Foreign Affairs*. This journal claims international prestige and attention because of its content and purpose and because of the numerous high-level people involved with it. Without question, *Foreign Affairs* is one of the most widely circulated journals among influential circles throughout the world. It is read closely not only in the U.S. but also in Peking, Moscow, Rome, Bonn, London, and Paris. *Time* magazine has called *Foreign Affairs* "the most influential publication in the United States." (*Foreign Affairs*, July 1977, advertisement insert.) William F. Buckley, a Council member since 1974, has called it "the most influential publication in the world." (*Firing Line*, June 15, 1977.)

Forecasting Future U.S. Policy

The insightful reader can almost forecast future developments as a result of reading its wide-ranging articles. *Foreign Affairs* is one of the most important avenues for the Eastern Establishment to outline its foreign policy goals and objectives. Suggestions contained within its pages more often than not become official U.S. policy. The journal should be required reading for the serious student of international affairs.

A Long-Range Goal of the Eastern Establishment

One of the long-range goals of the Eastern Establishment is the construction of a community of nations or world state in which national sovereignty and the nation-state is slowly phased out in order to bring about the first truly global economic system. The building of a global village has long been the goal of elites in New York, London, Paris, Rome, Frankfurt, Tokyo, etc.

A Global Super-State

Whether the earth will evolve into a global system of governance under the dominance of such international institutions as the OECD, IMF, BIS, IBRD, etc., remains to be seen. However, with power, wealth and prestige, together with the supra-national power structure which is currently in place, the likelihood of an elite system of global governance before the end of the century is a definite possibility. The years ahead will undoubtedly prove to be intriguing as the trilateral nations move toward convergence with Russia and other communist states in a New Imperial System."

The Council on Foreign Relations has served the powers that preside over the fate of nations well indeed. No other group of individuals in the U.S. appears to possess the dedication to world-order objectives quite like the members of the Council. No other group in the past seventy five years has accumulated enough clout to challenge its leadership.

25. Bilderberg Meetings: Annual Conference of the World's Power Elite

In the early 1950's a number of prominent individuals from Europe and the United States, under the direction of Dr. Joseph H. Retinger, organized a gathering of the most influential political, economic and social leaders in the world. Their purpose was to create an international forum which would facilitate a better understanding of the "forces and trends affecting Western Nations." (Bilderberg Meetings, January 1977, p. 1.)

Prince Bernhard Accepts Chairmanship of Bilderberg

Dr. Retinger convinced fellow Europeans Paul van Zeeland, Paul Rykens and others of the potential importance and outcome of such informal discussion gatherings. H.R.H. Prince Bernhard of the House of Orange Nassau was approached and asked if he would accept the chairmanship of each conference. After consultations with his advisors and friends, he accepted. As one reporter noted, "Bernhard had the combination of ability, sophistication, wide international friendship, and the cachet of royalty that put the stamp of success on the Bilderberg meetings from the first." (*Los Angeles Times*, April 22, 1977.)

Great Conference Placed in Prince Bernhard

Dr. Retinger and others placed great confidence in Prince Bernhard. Alden Hatch, Bernhard's biographer, goes so far as to say that the Prince had the ability to bring "the statesmen and leaders of the New World and the Old together at the Bilderberg Conferences to tell the truth about their countries' aims and weaknesses...." (*Prince of the Netherlands*, Doubleday and Co. Inc., Garden City, NY, 1962, p. 17.)

The First Bilderberg Meeting

The first meeting of Bilderberg was convened at the Bilderberg Hotel in Oosterbeek, Holland, in May of 1954. Since that time, the meetings have been called "Bilderberg Meetings." They were chaired by Prince Bernhard until 1976, when circumstances resulted in his resignation. As a result of his resignation, the Bilderberg meeting was cancelled in 1976.

Discussion at Bilderberg Meetings

The discussion at each Bilderberg meeting centers around current topics of importance to those in attendance.

For example, at each of the recent Bilderberg meetings four confidential discussion papers have been prepared for the participants. Leading European and American authors are selected to prepare separate papers on the same subject. At the 1978 meeting in Princeton one of the discussion topics was entitled "Western Defense With Its Political Implication." The European paper entitled "Defense Security, and the Western Alliance" was prepared by Dr. Christopher Bertram, Director of International Institute for Strategic Studies in London. The American paper entitled "Some Political Aspects of Western Defense" was prepared by Helmut Sonnefeldt, former State Department official.

Over the years, Bilderberg participants have listened to such influential and prominent individuals as Dean Acheson, Dean Rusk, David Rockefeller, Reginald Maulding, Denis Healey, Theo Sommer, Stanley Hoffman, George W. Ball, Karl Kaiser, Max Kohnstamm, Giovanni Agnelli, W. Michael Blumenthal, Michael Crozier, Richard Cooper and Thierry de Montbrial.

As noted by Don Cook, "everybody sits alphabetically in the conference room; and after each speaker has presented and enlarged on his paper, the responses from the floor are limited to five minutes each. That, in a technical sense, is all that happens at a Bilderberg meeting." (*L. A. Times*, April 22, 1977.)

An Exclusive Private Meeting

The conferences are held in a private or secluded setting so that the participants may speak with complete candor and not in the "euphemisms of diplomacy." In order to assure this setting, the gathers "...are closed and off the record. No resolutions are proposed, no votes taken, and no policy statements issued during or after the meetings. The names of the participants as well as the agenda items are published before the annual meeting. After each meeting, a report is circulated to participants and former participants." (Bilderberg Meetings, January 1977, p. 2.)

Bilderberg Participants

There are no members of Bilderberg, per se. Each year the steering committee from Europe and the United States selects the participants in "light of their knowledge, experience, and standing, and with reference to the topics on the agenda." (*Ibid.*, p. 2.)

Bilderberg Steering Committee

The steering committee meets twice each year, immediately after each conference and once mid-year before the next conference. Members of the steering committee select the conference topic and assign the preparation of the discussion papers (two by Americans and two by Europeans).

To insure a lively exchange of ideas, participants are selected from various "political and economic points of view." (*Ibid.*, p. 2.)

Financing of Bilderberg Meetings

The Bilderberg Meetings operate on a small budget with a secretariat office in The Hague. Operating expenses of the conferences are met by contributions from wealthy individuals who participate and by their companies. Support of the Bilderberg meetings has also come from the Ford and Rockefeller Foundations, as well as from the Carnegie Endowment for International Peace.

Conference Locations Changed Each Year

Bilderberg conferences are customarily moved each year to a different nation. According to Bilderberg officials:

"The offer to hold a conference has always been made by a group of persons in each country who sympathized with Bilderberg's objectives and who were willing to bear the expenses involved.

"The first conferences were held in Europe but in 1957 it was decided that, if feasible, the conference would be held every fourth year on the Western side of the

Atlantic in order to provide a convenient opportunity for more American and Canadian participants to attend." (*Ibid.*, p. 4.)

Political and Economic Influence of Participants

The participants are noted for their political and economic power or influence. The fact that the meetings are held in secluded parts of the world under the cloak of secrecy evokes criticism from some. However, according to Bilderberg officials, the meetings are "a high-ranking and flexible international forum in which opposing viewpoints can be brought closer together and mutual understanding furthered." (*Ibid.*, pp. 2-3.)

Articles Written about Bilderberg Meetings

Although the Bilderberg meetings are private and have been closed to the media, there have been, in recent years, a number of brief articles written which highlight various conferences. The following articles are presented to acquaint the reader with the various discussions that have taken place at past conferences:

Bilderbergers – A Unique Melting Pot

by Bill Anderson (*Chicago Tribune*, June 19, 1974.)

"**Washington** – The scene is a winding mountain road in the French Alps. It is April 19, 1974.... The limousines arrive at the palatial hotel one mile up the road.... The Mercedes, Rolls Royce, and Citroen touring cars begin to disgorge their passengers....

"There is the Baron Edmund de Rothschild, banker, of France. From Germany comes Helmut Schmidt, then the minister of finance for the Brandt government, who would soon be elevated to prime minister. Italy is represented by Giovanni Agnelli, president of FIAT S.P.A., and Prince Guido Colonna di Paliano.

"A Swiss businessman, Pierre Liotard-Vogt, chairman of Nestle Alimentana, is present, as is Krister Wickman, governor of the Bank of Sweden. Also in the crowd is Denis Healey, chancellor of the exchequer of the United Kingdom, and William Rodgers, minister of state for defense, representing the British cabinet.

"And then there are the Americans: two brothers named Rockefeller – David, chairman of the Chase Manhattan Bank, and Nelson, former governor of New York – George W. Ball, diplomat; Emilio G. Collado, executive vice president of Exxon Corporation; and Helmut Sonnenfeldt, counselor of the Department of State. Rounding off the American presence are Sen. Walter Mondale [D., Minn.] and Sen. Charles McMathias [R., Md.].

90 Influential "Movers and Shakers"

"There are 90 men and women in all. They are drawn from the ranks of the movers and shakers of the Western World. Cabinet officers, millionaires, powerful bankers, legislators, and the cream of the world's academic community. They have converged on the tiny French town of Megeve at the summons of His Royal Highness, prince Bernhard of the Netherlands. They are the Bilderbergers.

"The road to the Hotel Mont d'Arbois is patrolled by armed police and admission is by special identification badge. There are no newsmen. Bilderbergers do not hold news conferences. There is a "binding gentleman's agreement" that nothing said in that hotel during the three-day meeting will be repeated for public consumption.

"Joseph E. Johnson, president emeritus of the Carnegie Endowment for International Peace in New York, a Bilderberger for 20 years, told reporter Jim Coates of this column about this extraordinary meeting.

The Most Powerful People in Europe and U.S.

"At the end of World War II, Johnson explained, Prince Bernhard looked at the shambles of Europe and decided that much could be gained by setting up a completely informal, off-the-record conference of the most powerful people in Europe and the United States to discuss ways of rebuilding the war-ravaged continent. The meetings were to be secret so that the powerful attendants could speak with candor and not in the euphemisms of diplomacy. There is a ground rule, he added, that members speak as individuals and not on behalf of their governments or corporations. Their intent is to kick around ideas away from the hubbub of their busy lives....

The Atlantic World

"This year's topic, Johnson said, was "Prospects for the Atlantic World." He added, "There was a wide range of contradictory opinion. That has to happen when you put a Socialist like Denis Healey and some American millionaires in the same room. But everybody benefits from an exchange of ideas, especially among people at that level. These people really have very few opportunities to come together under any but the most rigidly formal conditions. We allow a break from that.

A Dutch Prince Builds and Rules an International Think-Tank

by John Gale (*Associated Press, July 21, 1974*)

"**Amsterdam** – It's been 20 years since Prince Bernhard of the Netherlands first produced his formula for promoting the cause of transatlantic harmony.

"He introduced the idea of an international think-tank, comprised of prominent people from the United States and Western Europe, able to speak with total frankness on issues ruffling the Atlantic alliance.

"Bernhard gave the participants privacy. The think-tank was sealed from the press....

"The chairman has been Bernhard, the German-born prince who married Queen Juliana while she was still a princess. Bernhard later fought with the Allies in World War II.

Gerald Ford

Gerald R. Ford attended two Bilderberg meetings long before he became vice president of the United States.

"You don't really belong to the organization; one gets an invitation from the prince," Ford said in 1965.

Bilderberg Participants

"At various times, the prince has requested and obtained the presence of Henry A. Kissinger – 1971, Woodstock, Vt.; Helmut Schmidt, now West German chancellor – 1973, Salsjoeboden, Sweden; former U.S. Secretaries of State Dean Rusk and Christian A. Herter; Thomas E. Dewey, former governor of New York and twice Republican presidential nominee; former British Prime Minister Edward Heath, Amintore Fanfani of Italy, and so on.

[The 1974 meeting] was held in a luxury hotel at the French ski resort of Megeve....

Prospects for the Atlantic World

"There was only one topic at the meeting: prospects for the Atlantic world.

"Eighty persons were invited and among those Americans who turned up were NATO commander Gen. Andrew Goodpaster; former U.S. Undersecretary of State George Ball; David Rockefeller, head of the Chase Manhattan Bank, and Sen. Walter F. Mondale (D-Minn.)....

The Purpose of the Bilderberg Meetings

"The prince is unrepentant about the secretiveness of the meetings.

"The purpose of the conference," he has said, "is that eminent persons in every field get the opportunity to speak freely without being hindered by the knowledge

that their words and ideas will be analyzed, commented upon and eventually criticized in the press."

"His pulling power appears to date from World War II. Having taken his family into exile, he won his wings with Britain's Royal Air Force and reputedly got into rows with the British for going on unofficial bombing excursions over Germany.

"He ended the war as commander in chief of the Dutch armed forces and a good friend of Gen. Dwight D. Eisenhower.

"I never regarded the prince as a useless appendage of the royal family,' Eisenhower was quoted as saying, 'but as a person who was intelligent, interested and ambitious to do something useful and who was greatly respected in government circles.'

"Bernhard, now 62, unhesitatingly used his wartime contacts to get the Bilderberg conception rolling. He has consistently asserted its only aim is to foster the transatlantic relationship.

Critics of Bilderberg

"People want to place all possible labels on our meetings, from Fascist to Communist," he has said. 'In reality, without striving for clearly defined results, we hold a discussion over a few weighty subjects each time. A better understanding is our goal.'

"After the United States stymied the 1956 Anglo-French Suez invasion, he said: 'In the really bad mood after Suez, we were able to talk in such a way that both the British and the French went home no longer mad at the Americans.'

Ideas from Bilderberg Make an Impression

Bernhard clearly expects that within influential circles, the ideas emerging from Bilderberg will make their impression. Of his personal role, he said: 'I'd consider my own work in the same light as practically everything I do. I am only a catalyst.'

Bilderberg, Where the Power Elite Meets

by Don Cook (*Los Angeles Times*, April 22, 1977.)

Paris – In the faded Edwardian splendor of the Imperial Hotel at Torquay, a very English seaside resort on the south coast of Devon, the power elite of the Atlantic world will spend this weekend at an Olympian International gathering – the Bilderberg Conference.

"Henry A. Kissinger will be there, out of office. But West German Chancellor Helmut Schmidt, British Chancellor of the Exchequer Denis Healey and NATO Secretary General Joseph Luns, all still in power, will be there.

Bilderberg Participants

"There will be a Rockefeller (David), a Rothschild (Baron Edmond) and an Agnelli (Giovanni), representing the Fiat empire. There will be politicians, foundation heads, industrialists, bankers, economists, ambassadors, foreign ministers, think-tank experts and professors galore, plus a few journalists who will remain as secretive about the three-day proceedings as all the rest.

A Class by Itself

"This will be the 25th Bilderberg Conference since the first gathering in a similarly dowdy setting at the Bilderberg Hotel in Oosterbeek, Holland, in 1954. Since those days, the Bilderberg Conference has obtained a class by itself.

The Real Influence of the Bilderberg Meetings

"The first ingredient which makes Bilderberg so special is obviously the level of its participants – their political and economic power, their intellectual and practical influence. Then there is the exclusivity, with fewer than 100 participants until this year's meeting where 120 are expected. And finally there is the mystique of privacy and secrecy....

Advantages of Privacy

"But the real meat of the Bilderberg gatherings is not the agenda or the formal discussions but the lunches and dinners, the drinks in the bar, the walks along the seacoast and the cozy chats in comfortable chairs with no prying eyes or ears, no recorded minutes or memorandums, no commitment and no holds barred except, presumably, the restraints of politeness and good behavior.

Financing of Bilderberg

"...The conference operates on a low budget with a small secretariat office in the Hague and everybody paying his own way, except for the occasional valued but impoverished intellectual. Its basic operating expenses are readily covered by contributions from either the wealthy individuals who participate, or by their companies, to name a few of the latter: Fiat, Ford, Unilever, Countaulds, Imperial Chemicals, Kleinwort Benson, Alean, Lehman Brothers, Dunlop Rubber, Exxon, August-Thyssen Huttel, Tube Investments, Shell and General Electric. With friends like these, money is no problem....

"Convenient isolation and privacy are the first requirements of a Bilderberg setting.

Carter's Policies Discussed at Bilderberg Conference

by William Blakemore (*The Christian Science Monitor*, April 26, 1977.)

"**Torquay, England** – European uneasiness over some aspects of President Carter's policies underlay much of the discussion at the 25th Bilderberg Conference of leaders of the NATO countries held here this past weekend....

Bilderberg Participants

"Topping the list of delegates at the meetings in this English coastal resort were former U.S. Secretary of State Henry Kissinger and West German Chancellor Helmut Schmidt.

Debate over Human Rights

"The West German leader reportedly told the conference the Carter stand on human rights could jeopardize the United States' slowly nurtured relations with Eastern Europe, and that the U.S. President's policy on nuclear energy might scuttle the sale of a large West German nuclear fuel reprocessing plant to Brazil.

"The German concern on human rights is that 10 years of careful accommodations with neighboring East Bloc countries might go by the board if the Soviet Union were to react in an increasingly hardened way to more importunings by Mr. Carter on behalf of Soviet dissidents.

"West Europeans also are apprehensive as to the possible effect of Carter policies on their own economic problems – inflation, unemployment, and labor relations. This concern tended to override another main topic of the conference – the demand of the third world for a restructuring of the world economic order.

General Feeling of Participants Voiced

"No policy statements result from the Bilderberg meetings. No formal resolutions are adopted. But breaking with tradition, this year's conference chairman former British Conservative Prime Minister Douglas Home, met with newspapermen after the Torquay sessions. He said the general feeling of participants was that Europe should try to adopt a unified stand in its dealings with the U.S.

Europe Should Speak with One Voice

"The obligation lies on Europe to try to speak with one voice to the United States," he said. "We haven't been all that successful up to now.

"Noting that the conference discussed human rights disputes in the context of U.S.-Soviet detente, Lord Home stated:

"'The general consensus was that you could not talk of human rights in relation to one particular country, that the desirable thing is that human rights should be applied universally.'

"The British statesman said...that the next conference will be held in the United States in April, 1978.

Bilderbergers in Princeton

(The Trentonian, Trenton, N.J., April 21, 1978.)

Princeton – This small, affluent and intellectually inclined community will play host to more than 100 "movers and shakers" of the industrialized world – including such luminaries as former Secretary of State Henry Kissinger and NATO's Supreme Allied Commander Gen. Alexander Haig – at a closed-door meeting this weekend to discuss Western defense and trade.

"The 105 persons from 20 nations, chosen for their affluence or expertise in the subjects under discussion, are meeting in strict privacy at the 26th Bilderberg conference.

Why a Secret Conference

"Lord Home, a former British prime minister and chairman of the conference, told a news conference Wednesday the reason that very little information is ever made public about Bilderberg.

"'We are very often asked why the conference has to be secret,' Home said. "But in fact it's not, it is merely private.'

"Bilderberg officials justify the privacy on the ground the participants need to be sure their off-the-record opinions on such weighty topics as defense will not become public statements.

"'We do not seek a consensus,' Home said. 'There is a discussion of whatever topics have been chosen and we hope everyone goes away with a better knowledge of them than before.'

"The conference is being held at the Henry Chauncey Conference Center, part of the Educational Testing Service complex on Rosedale Road, and the organizers have taken over the entire hotel complex to ensure security.

Bilderberg Discussion Topics

"The participants will hear introductory papers on two topics: 'Western defense with its political implications' and 'The changing structure of production and trade: consequences for the Western industrialized countries.'

"The documents are planned as a starting point for wide-ranging discussion of the subjects by the diplomats, politicians, businessmen, academics and writers invited to attend.

"The main aim, according to Home, is an exchange of ideas.

Purpose Is to Share Information

"I can't say that anything in particular has ever been decided between two or three countries, but the individuals attending do pick up a lot of information,' he said.

"Asked if any decisions had come out of previous conferences, Home said, 'If you're talking about any major event that was decided – no.'

"Asked if the U.S.-Soviet Salt II negotiations might be discussed at the conference, Home said, 'Almost certainly. And broader topics as well, like Russia's expansion into other areas, such as Ethiopia.'

"Among the participants this year – ...are Zbigniew Brzezinski, President Carter's assistant for national security, IBM Chairman Frank Cary, David Rockefeller, chairman of Chase Manhattan Bank, NATO Secretary General Joseph Luns, Fiat President Giovanni Agnelli, President Gaston Thorn of Luxembourg and a contingent from [each side] of Britain's parliament...."

26. Foreign Policy Association – America's Transition from Isolationism to Globalism

U.S. foreign policy has deeply affected the personal lives of all Americans, far more than many of them realize. In fact, its tremendous influence is felt in every nation in the world. From the secret council chambers of the White House and the esoteric labyrinths of the State Department there issues forth policies which other nations await with both hope and fear.

In the past 200 years U.S. foreign policy has moved from a position of guarded "separatism" into an era of vigorous involvement in global affairs.

The Original Doctrine of Separatism

As the United States emerged on the world scene in the 18th Century, American leaders took a united and fixed position against entangling alliances with any foreign powers unless an attack against the United States made such alliances temporarily necessary. This was referred to as the doctrine of "separatism" or "isolationism." This term over the years has implied complete seclusion from other nations. However, the policy of the founders was to cultivate a wholesome relationship with all nations, while remaining aloof from their sectional quarrels. They wanted to keep American markets open to all countries unless certain nations engaged in hostilities against the United States.

The founder's original policy was similar in many ways to that of modern Switzerland, which has successfully remained neutral and aloof from entangling alliances during two world wars and numerous European quarrels. During these periods of intense military action, Switzerland did not follow a policy of "isolationism," but one of universal diplomatic relations with all who might wish to come to Switzerland to buy, sell, borrow or bank. She took a hostile posture toward none. In general terms, this is analogous to the doctrine of "separatism" practiced by the early American leaders. Thomas Jefferson described this policy in his first inaugural address when he said:

"Peace, commerce, and honest friendship with all nations, entangling alliances with none." (Britannica, *Annals of America*, Vol. 4, p. 145.)

George Washington spelled it out in more detail in his Farewell Address when he advised his successors to "Observe good faith and justice toward all nations. Cultivate peace and harmony with all." (*Op. cit.*, Vol. 3, p. 612.) He then went on to say, "The nation which indulges toward another an habitual hatred or habitual fondness is in some degree a slave. It is a slave to its animosity or to its affection, either of which is sufficient to lead it astray from its duty and its interest." (*Ibid.*) Washington then concluded, "The great rule of conduct for us, in regard to foreign nations, is, in extending our commercial relations, to have with them as little political connection as possible. So far as we have already formed engagements, let them be fulfilled with perfect faith. Here let us stop." (*Ibid.*, pp. 613-614.)

Founders' Effort to Reconcile Separatism with Manifest Destiny

American separatism did have one aspect which was clearly distinct from Swiss neutrality: the founders accepted the doctrine of "Manifest Destiny". This placed upon the American people the responsibility of serving as the vanguard nation for the moral and political emancipation of all mankind. Freedom, education and progress for all men was a common denominator in the thinking of early American leaders. As John Adams wrote:

"I always consider the settlement of America with reverence and wonder, as the opening of a grand scene and design in Providence for the illumination of the ignorant, and the emancipation of the slavish part of mankind all over the earth." (Quoted in *Redeemer Nation*, by Ernest Lee Tuveson, University of Chicago Press, 1974, p. 25.)

In the same spirit, James Madison wrote: "Happily for Americans, happily we trust for the whole human race, they [the founders] pursued a new and more noble course." (*Federalist Papers*, No. 14, Mentor Edition, p. 104.)

Beginning with the protection of the western hemisphere from further encroachments by European powers, the early foreign policy of the United States focused on separatism and at the same time undertook to promote the idea of human emancipation "all over the earth."

Separatism Replaced by Internationalism

The policy of "separatism" (or "isolationism") and Manifest Destiny was the dominant foreign policy of the United States for the first 125 years of its existence. However, with the advent of World War I, the doctrine of "separatism" left the mainstream of prominent thinking and was replaced by a new concept known as "internationalism."

The doctrine of "internationalism" called for the intimate involvement of the United States in important dimensions of world economics, world politics, and world social conditions.

Modern Separatists Resisted the Change in Foreign Policy

The doctrine of separatism did not die without a fight. This was particularly evident just before World War I and was also reflected in the rise of the "America First Committee" just before World War II.

One of the principal spokesmen against U.S. entry into World War I was Congressman Charles A. Lindbergh, Sr., father of the famous Lone Eagle who made the first airplane flight over the Atlantic. Congressman Lindbergh felt history vindicated the position of the separatists when he wrote in 1923:

"Take for example our entry into the World War [in 1917]. We did not think. We elected a president for a second term because he said he 'kept us out of war' in his first term. We proved by a large vote that we did not want to go to war, but no sooner was the president re-elected than the propaganda started to put us to war. Then we became hysterical, as people always have done in war, and we believed everything bad against our enemy and believed only good of our allies and ourselves. As a matter of fact all the leaders were bad, vicious. They lost their reason and the people followed.... We cannot properly blame the people of any of

the European nations, unless we blame ourselves. None of them were free from danger of the others.... We, however, were not in danger, statements by profiteers and militarists to the contrary notwithstanding.... The greatest good we could do the world at that time was to stay out, and that would have been infinitely better for ourselves, for we could have helped the world had we conserved our resources. There never was a nation that did a more unstatesmanlike thing than we did to enter the war. We came out without establishing a single principle for which we entered.... The one compelling duty of America is to put its own house in shape, and to stand upon an economic system that will make its natural resources available to the intelligence, industry and use of the people. When we do that the way to world redemption from the folly of present chaos will stand out in our country so clearly, honestly and usefully that we shall be copied wherever peoples do their own thinking." (Charles A. Lindbergh, Sr., *The Economic Pinch*, 1923, pp. 233-235.)

Entry into the U.N. Marks the End of the U.S. Doctrine of Separatism

As the threat of World II drew near, the philosophy of separatism was again expressed by those who felt the greatest long-range gain could be achieved by skirting the conflict. By 1945 the sentiments expressed by Congressman Lindbergh and other prominent nationalists were far outside the mainstream of American thought and the nation's foreign policy was completely committed to the task of assuming world leadership.

The Foreign Policy Association

Several organizations had been functioning on various levels for a full generation, to guide America towards a new role of world leadership. Two of these, which became the most influential in bringing about the transition, were the Council on Foreign Relations and the Foreign Policy Association. Originally, the Foreign Policy Association began as the League of Free Nations Association.

Ralph B. Levering, writing in *The Public and American Foreign Policy 1918-1978*, stated that:

"...World War I and its aftermath spawned groups among the attentive public with diverse perspectives on foreign policy, perspectives which have continued to compete for public favor. Supporting cooperation with the League of Nations and collective security against potential aggressors were such groups as the Council on Foreign Relations (founded in 1918 as a discussion group in New York and transformed in 1921 into the current organization) and the Foreign Policy Association (founded in 1918 as the League of Free Nations Association). Whereas these two became primarily educational organizations in the 1920's, the League of Free Nations Association actively sought American membership in the League during the interwar period." (New York: William Morrow and Co., Inc., N.Y., 1978, p. 39.)

Two Foreign Policy Association Goals

From its inception, the League of Free Nations Association (which became the F.P.A.) stressed the two principles which it felt were "absolutely requisite" for the development of foreign policy in the United States. They were:

"First: The establishment of some sort of international organization, some sort of league of free and self-determining nations, as a substitute for international anarchy and international hatred;

"Second: Careful study of all sides of every international question affecting the United States to the end that liberal-minded people might understand fully what our problems are and how they may be dealt with most effectually." (*Fifty Years – the Story of the Foreign Policy Association*, F.P.A. publication, 1968, p. 5.)

Major Change in American Attitude Considered Necessary

With the rejection of Woodrow Wilson's League of Nations, the Association decided that if its goal of an "international organization" was to be achieved, a major change in the attitude of the American people was prerequisite. In order to facilitate this goal the Association decided to place special emphasis on the education of the public toward world affairs issues. The Committee felt that it was time to move from a state of isolationism into a new era of international involvement in global affairs.

F.P.A. Becomes the Foremost Educational Organization on Foreign Policy

In 1921, the Association was renamed the Foreign Policy Association. Under the leadership of James G. McDonald, F.P.A. sought to become the leader in educational matters relating to international affairs. By 1978, F.P.A. had reached its goal and had become the "foremost educational organization in the nation dealing with current foreign policy issues.

The aspirations of the Foreign Policy Association were recently outlined in an F.P.A. Fact Sheet as follows:

"Since 1918, our purpose has been to help Americans gain a better understanding of significant issues in U.S. foreign policy and stimulate constructive and informed citizen participation in world affairs.

"The Association's major function is to help define and call wide public attention to those major issues of contemporary foreign policy which government and people must resolve in democratic partnership.

"F.P.A. has no affiliation with government and receives no direct funding from it."

Activities of the Foreign Policy Association

"F.P.A.'s long experience confirms that understanding is best served when issues are talked over. Its publications and open events are designed to generate discussion. Participants are urged to express and discuss their points of view, to communicate them to the government and to take an interest in the knowledge and positions of their political candidates on world affairs.

"F.P.A.'s annual Great Decisions program on eight major foreign policy issues facing the United States, and its year-round Headline Series, along with the TV, radio, and media support they receive, reach out to more students, libraries and community groups than any other world affairs educational service available today.

"F.P.A. provides an open world affairs meeting service to the New York and Washington communities. Throughout the year, leaders, experts and institutions who dedicate their talents and experience to the issues of U.S. foreign policy, and take varying positions on these issues, are offered F.P.A.'s podium in order that these important matters can be given balance presentation and audience discussion. Their views and the discussion they stimulate serve not only these two metropolitan communities but also, through the news media and presentation reprints, reach a national public." (F.P.A. Fact Sheet 1978.)

Year Round VIP Meetings Set Up in New York

F.P.A. set up a vigorous "year-round open podium" to offer "all serious-minded citizens" a place where "urgent items on America's world agenda may be discussed." Various speakers at these meetings resemble a Who's Who in International Affairs. From 1976 to the present F.P.A.'s New York audience has listened to such speakers as Harry F. Oppenheimer (Chairman of Anglo American Corporation in Johannesburg) speak on "Prospects for Change in Southern Africa"; Giovanni Agnelli (Chairman of the Board of FIAT) on "International Business and International Politics"; Takeo Fukuda (Prime Minister of Japan) on "Japanese-American Cooperation: Building for the 21st Century"; Sol M. Linowitz on "Why a New Panama Canal Treaty?"; and Henry Kissinger on "The Law of the Sea".

Foreign Policy Background Briefs

F.P.A.'s elaborately prepared Foreign Policy Background Briefs are distributed to every congressional candidate in the nation as well as to all presidential nominees, senators and congressmen during the various elections.

Great Decisions Program Launched

In 1954, F.P.A. launched the most ambitious grassroots educational program in U.S. history on world affairs. It was called "Great Decisions," and currently reaches over 100,000 people each year.

F.P.A. Gains Support of Various U.S. Presidents

Virtually every U.S. president since the 1930's has publically endorsed the Foreign Policy Association. Franklin D. Roosevelt stated in 1943 that:

"In a democracy the Government functions with the consent of the whole people. The latter must be guided by the facts. The Foreign Policy Association is performing a high duty in facilitating the lucid presentation of the facts of world problems and their impact upon the United States...."

In 1967 Lyndon B. Johnson stated:

"There are no simple answers to the foreign policy questions that confront our nation. For 50 years the Foreign Policy Association has helped Americans, in and out of government, gain a better understanding of the complexities of a changing world."

27. National Education Association – Education for a New World Order

On February 23, 1930 the *Washington Post* stated that: "America has at least three great organizations: The American Bar Association, the American Medical Society and the National Education Association." Today this statement appears almost prophetic in light of NEA's national influence and prestige.

The Largest Professional Organization in U.S.

NEA is "the largest professional organization and the largest public employee organization in the nation." (NEA Fact Sheet.) Its seven story complex in the heart of Washington, D.C. covers nearly all full half city block. NEA membership is rapidly approaching 1.9 million. Approximately 90 percent of the members are classroom teachers. NEA's student association contains over 50,000 members in over 1,200 local associations at various colleges and universities throughout the nation. NEA represents over 8,500 K-12 teacher organizations which negotiate "collective bargaining contracts with school systems." (*Ibid.*) NEA also represents over 138 higher education faculty organizations on 207 campuses in America.

NEA Endorsement of Carter and Mondale

Besides being one of the most influential and powerful lobbying organizations or unions in Washington, NEA is rapidly becoming one of the most controversial. In 1976 NEA broke a 119 year old tradition and publicly endorsed a presidential candidate. NEA representatives overwhelmingly supported the decision of their Political Action Committee to endorse Jimmy Carter and Walter Mondale. Of the 7000 votes cast, 81 percent favored Carter and Mondale while 19 percent favored Gerald Ford and Robert Dole.

The presidential endorsement by NEA in 1976 reportedly disenchanted many educators who thought NEA should stick to its traditional role in education.

With nearly 1.9 million members political candidates at both the State and local level are now clamoring at the door of NEA in order to obtain their official endorsement and support.

NEA Support of Controversial Subjects

Besides the open endorsement of political candidates NEA now openly supports behavior modification, compulsory education from very early childhood, family planning, sex education, population control, a new global society, the Equal Rights Amendment, collective bargaining, decriminalization of marijuana, a national environmental policy, a national energy policy, secular humanism, a cabinet level office of education, the United Nations, student rights, federal day-care centers, public welfare, national health insurance, teacher strikes, school busing, planned program budgeting system, increased federal aid and control of education, and Dr. Henry Steele Commanger's Declaration of Interdependence.

On the other hand, NEA openly opposes local control of public schools, local financing of public schools, parental supervision of textbooks, Proposition-13-type legislation, and tuition tax credits.

Needless to say, the above list of controversial issues is beginning to create a strain on NEA's power structure, national influence, and control over its members.

NEA's Bicentennial Committee

In 1972 the National Education Association established a Bicentennial Committee, which it said was designed to develop a "living commemoration of the principles of the American Revolution." It then went on to say that the "200th anniversary celebration of the Declaration of Independence was to focus on the next 100 years of education in an interdependent global community." (*Today's Education*, September-October, 1976, p. 57.)

NEA's Bicentennial Ideabook states that "...teachers are the major resource through which to effect a world community based on the principles of peace and justice." (*NEA Ideabook – Programs, Ideas, Resources*, NEA publication, 1975, Foreword.)

NEA's Declaration of Interdependence

In order to participate in the development of a world community, NEA fashioned a Declaration of Interdependence in 1975 and endorsed Dr. Henry Steele Commanger's Declaration of Interdependence, which was published by the World Affairs Council of Philadelphia.

NEA's Declaration of Interdependence states that:

"We the people, facing a world crisis, realize the imperative to reaffirm the truths that differences of age, color and belief are natural; that diverse groups, institutions and ideas should be reviewed as stimulating elements for the creative development of all; and that to generate unity in diversity is the responsibility and challenge before women and men of every nation.

"We therefore urge all to join in cooperative action –

- To inspire, release and coordinate our human and material resources;
- To nurture the will to live and thereby rescue the future from the angry condemnation of the past.
- To champion the uniqueness of the person, human dignity and universal rights;
- To develop a real sense of interdependence based on reciprocity;
- To assist other institutions in our society in working toward greater understanding of global problems;
- To insure that all factors of life are returned to balance, for the health and good of all;
- To strive together to discourage hostility, elusiveness and brute aggressiveness;
- To foster an enlightening synthesis through education, planning, human encounter and service.

"Being sisters and brothers of a common origin, no longer sufficient unto ourselves, we hereby declare the supreme value of Interdependence as the door to our survival and fulfillment – for we the people shall kindle the torch of hope, shall ink hands over the earth."

Teachers to Embrace Ideals of Global Community

In June of 1976 former NEA presidents and current cochairpersons of the Bicentennial Committee, Helen D. Wise and James A. Harris, made the following comment concerning educators and their potential role in the developing new world order or global community.

"For all its complexity, there are but two ways to deal with the future: as a passive or an active being. We can simply let the future happen and adjust our actions accordingly, or we can create and control it. Two hundred years ago, the

drafters of the Declaration of Independence chose the latter. Today, we, drafters of a Declaration of Interdependence, also have made the decision to take an active role in shaping the future.

"It's a risky step to take. Decisions that we made in what is now our history have had an impact on every phase of life today. When the signers of the Declaration of Independence committed this country to the belief that "all men are created equal" it was a commitment that has been felt by every generation of Americans since and will be felt by all those yet to be born. Its meaning has changed many times in those 200 years, but its impact has not. When we break with the past or take even a small step toward a new idea for the future, we are on totally untried ground. The risk for ourselves and our responsibilities to future generations are awesome. It is with this sobering awareness that we set about to change the course of American education for the twenty-first century by embracing the ideals of global community, the equality and interdependence of all peoples and nations, and education as a tool to bring about world peace." (*A Declaration of Interdependence: Education for a Global Community*, a Summary Report of the NEA Bicentennial Program, NEA publication, June 26, 1976, Foreword.)

28. World Affairs Council and Global Interdependence

One of the most promising of the educational groups in America is the World Affairs Council of Philadelphia. The Council was established in 1949 by the successful merger of the United Nations Council and the Philadelphia branch of the Foreign Policy Association.

Goals and Aims

According to the Council's documents, its purpose "is to provide its members with opportunities to discuss and analyze the facts and issues shaping world affairs, American foreign policy, and related domestic and international issues." The council aims:

"...to develop an informed public opinion on key foreign policy issues...

"...to further an understanding of political, social, economic and cultural matters – the foundation of effective participation in international affairs...

"...to stimulate citizen involvement in foreign policy formulation...

"...to prepare students for responsible roles as citizens and community leaders...."

The financial support of the World Affairs Council is derived from member contributions and tax-exempt foundations.

National Prominence

The Council was recently thrown into national prominence when it successfully developed and initiated its Bicentennial Era program (1976-1989). The Council offered "during the 13-year Bicentennial Era period...a series of citizen discussions, professional consultations and curriculum aids on global topics. The project has been hailed by *Saturday Review* as the 'finest and most significant single thing' to come out of the Bicentennial."

The New Declaration of Interdependence

The main tenet of the Council's Bicentennial Era thrust was a document produced by Dr. Henry Steele Commager entitled the "Declaration of Interdependence". The document was published in many newspapers and journals, distributed to over 2 million teachers and endorsed by over 100 members of Congress. The Council reports that 50,000 Americans requested copies of this unusual document.

John F. Reichard, former Executive Director of the Bicentennial Era program of the World Affairs Council, set forth the goals and plans of the Council and its Bicentennial programs in a recent article entitled "On Declaring Interdependence". Mr. Reichard begins his article with the following:

"Standing before Independence Hall on July 4, 1962, President John F. Kennedy proclaimed, ... I will say, here and now, on this Day of Independence, that the United States will be ready for a Declaration of Interdependence.'

"Kennedy's call was not the first to ring out at Independence Hall – such a declaration had already been proclaimed there on the 250th anniversary of Benjamin Franklin's birth. Kennedy was not even the first President to have had some association with the idea. Herbert Hoover had actually signed a Declaration, albeit some years after he left the Presidency, and Dwight D. Eisenhower had inspired many of the interdependence declarers in the 1950's.

"But coming as it did at the beginning of the period of preparation for the Bicentennial, the echo of the Kennedy call lingered along the corridors of that long planning process. And it was remembered by leaders of the World Affairs Council of Philadelphia when a decade later they determined to construct a Bicentennial era program to include a document and program entitled 'A Declaration of INTERdependence.'" (*International Educational & Cultural Exchange*, Vol. XII, No. I, Summer 1976, p. 29.)

Making Americans Interdependently Minded

Mr. Reichard continues by discussing the Declaration of Interdependence and the World Affairs Council's desire to "make Americans" interdependently minded:

"The Philadelphia interdependents realized that the growing attention being given the Declaration results from the Bicentennial focus on the great document of 1776 and on their city as the focus of that proclamation, and of course, the eloquence of Professor Commager. 1 The coincidence that 'interdependence' has become a catch term of mid-70's foreign policy analysis just as the Nation celebrates its 200th birthday has made a 'declaration of interdependence' almost irresistible to those who have determined in Commager's words 'to set forth the principles which should animate and inspire us if our civilization is to survive.' To be sure, there is in the intriguing play on the words 'independence' and 'interdependence' a danger that an interdependence declaration will appear to be a parody or pretension. However, the World Affairs Council leaders hope to make Americans more aware of the deepening state of interdependence and to stimulate appropriate citizen response. Therefore, the sense of historic parallel was too appealing to reject, whatever the imperfections." (*International Educational & Cultural Exchange*, p. 29.)

A Call for Government Action

Mr. Reichard states that the World Affairs Council's new Declaration of Interdependence will be "matched with an appropriate program of action", which undoubtedly means a call for governmental implementation of its stated goals.

The Interdependence Movement

There have been several declarations of interdependence produced down through the ages. The first such declaration was written by the Social Labor Party in 1895. The second declaration was written by M. Cary Thomas while she was president emeritus of Bryn Mawr College in 1924. It was entitled: "To Outlaw War: A Declaration of Inter-dependence by the United States". The document heavily supported the League of Nations. In 1945, Will Durrant issued a short declaration of interdependence where he encouraged universal brotherhood. In the 1950's the interdependence movement gained great momentum when Otto Tod Mallery, former chief economist for the U.S. Department of Commerce issued his declaration which was five years in the drafting and which was signed by over 1300 prominent figures throughout the world.

Mr. Reichard pointed out earlier in his article that it was President John F. Kennedy's call for a new "Declaration of Interdependence" that inspired the World Affairs Council to encourage Dr. Commager to produce his document.

The Distinguishing Features of the New Declaration of Interdependence

Mr. Reichard goes on to state that: "What distinguishes the Henry Steele Commager/Philadelphia World Affairs Council declaration from its historic predecessors is not merely its eloquence, but also the breadth of its global perceptions and the historic perspective in drawing parallels between the

challenges of two threatening periods in the American experience. Commager, as did most of his predecessor declaration writers, recognizes that 'mankind is one' and deplors the 'reliance on force' in settling international disputes.

"But Commager gives major attention to the physical globe in this articulation of the great challenges – to the limits of natural resources, the inequitable distribution of those resources, the inequitable distribution of those resources, the threat of hunger and population, the promise of the oceans and outer space, to intercontinental pollution, the interrelationships of economic activities, and the need for stronger international authorities in the establishment of a new world order." (*International Educational & Cultural Exchange*, pp. 32-33.)

Council Activities

How is the World Affairs Council utilizing Dr. Commager's Declaration? How effective are the Council's educational systems? What activities are planned by the Council for the Bicentennial era? Mr. Reichard states that:

"The World Affairs Council Bicentennial era program entered three principal areas of activity:

"1. *The classroom.* The Philadelphia Council is expanding its regular services to the region's public, archdiocesan, and independent school systems by producing special student and teacher materials on interdependence. This is an intensive effort to convey global perspectives to those who must lead and those who must furnish citizen support in this Nation's 'global bargaining' in the decades ahead.

"Through the Declaration, students in other parts of the Nation are sharing in the Philadelphia undertaking. The Declaration was published in the March-April issue of the National Education Association's journal, *Education*; distribution throughout the year in the thousands of student kits by the U.S. Committee for UNICEF; featured in a Bicentennial pageant in the archdiocesan schools in St. Augustine, Florida; given to workshop participants of the Iowa State Educational Association Teaching Cadre; used as the basis for a statewide New York high school conference; studied by parent-teacher groups in New England; and introduced into world politics courses in at least four universities.

"2. *The professional conference.* The Council has organized a distinguished series of Bicentennial INTERdependence Assemblies in association with prominent national organizations in order to develop an American response to new global imperatives. These assemblies are focusing on the Declaration in such domains of international importance as peacemaking, health, population, nutrition, education, urban planning, energy, environmental protection, finance and trade, space exploration, the uses of ocean resources, nuclear disarmament, intercultural exchange, and world law and human rights.

"The recommendations of the assemblies [were] synthesized in a midsummer consultation of 35 American experts under the chairmanship of Harlan Cleveland, Director of the Aspen Institute's Program in International Affairs and the vice chairmanship of Dr. Bowen C. Dees, President of the Franklin Institute. The INTERdependence Report, which [emerged] from this synthesis [was] presented to Secretary General Waldheim and the executive heads of the United Nations specialized agencies at a unique convocation in Philadelphia on October 21, 1976.

"Through the support of the Bureau of Educational and Cultural Affairs, leaders of nearly 50 world-affairs councils in the United States gathered in Philadelphia in September to make plans for the distribution of the INTERdependence Report to 50,000 Americans active in world affairs community dialogue and to determine how the dialogue can be further expanded across the land. The entire international exchange experience will be looked at afresh by these community representatives to determine how foreign students, short-term visitors, cultural representatives, and others from abroad can become partners in the accelerating search for solutions to global problems.

"3. *The forum of citizen dialogue.* The council is seeking to share with Americans Philadelphia's increasing commitment to interdependence through public affairs programs. As evident as the fact of our interdependence may be to professionals, scholars, and government experts, there is still too little public recognition of its implications beyond the unavoidable recognition of rising gasoline prices. Accordingly, the Philadelphia INTERdependence leaders have been encouraged to receive thousands of communications concerning the Declaration and requests for its use by such varied sources as a Bicentennial committee in South Carolina, a management training institute of a major oil company in Pennsylvania, a community forum in Vermont, a United Church of Christ in Oregon, a chapter of the American Association of University Women in Montana, the Junior Order of United American Mechanics in New Jersey, and the U.S. Catholic Conference." (*International Exchange & Cultural Exchange*, pp. 33-34.)

The World Affairs Council provides an excellent opportunity for "global education" via its membership program. The following descriptive material, directly from Council documents, outlines the membership services and activities of the Council.

Member Services & Activities of the Council

"Council members are invited to afternoon and evening showings of unusual films and features on world affairs. Take your pick of penetrating documentaries analyzing countries that are in the news, or soon will be – sit back and take in a mind-stretching double feature: a USIA film on Czechoslovakia juxtaposed with a Soviet film on the same subject...see a revealing series on modern China, searching

for an honest assessment of what's happening to that land and its people...turn the adventure of film viewing into an intercultural experience.

"Hear political scientists with opposing viewpoints debate the Arab-Israeli conflict...or oil company executives vs. the environmentalists. Learn how international terrorism is changing where and how you travel. Listen to American and foreign diplomats, journalists and academicians discuss your world, your tomorrow.

Gala Evenings

"One of Philadelphia's most prestigious organizations, the World Affairs Council attracts a world-famous headline-maker when it presents the international Statesman's Award at its State Dinner. This glittering event draws a black tie audience from near and far – a special gala launched amidst trumpets and tulips when his Royal Highness Prince Bernhard of the Netherlands received the first award, and continued as the backdrop for recognizing the outstanding qualities and influence of Kurt Waldheim, U.N. Secretary General. On another occasion a major Council dinner was crowned by featured speaker Henry Kissinger just two weeks after his return from negotiations in Peking.

Publications

"Members are regularly kept informed about future programs and other happenings of interest; special news and other significant reports come to them periodically through the "Councilgram." Members also receive the handy Legislative Directory, a reference designed to encourage the exchange of ideas between them and their legislators.

"Reduced subscriptions for seven international affairs-related journals, including *Newsweek*, *Foreign Affairs* and *Foreign Policy* are available to Council members only.

Food Plus Food for Thought

"Council members participate in luncheons, off-the-record talks, lectures, discussion groups and special dinner events. These meetings take place throughout the year and offer a wide range of intellectual fare and penetrating analysis of our world today in a pleasant social setting that makes each event a relaxed and enjoyable educational experience. Cocktails and refreshments at these sessions offer further opportunity to meet other members and guests in an informal, friendly face-to-face setting.

Special Tips and Tours

"Council members have their choice of a variety of trips and tours in this country and abroad. You can look forward to visits to Washington with special backgrounding by State Department and other federal officials...tours of foreign embassies where you meet and mix with diplomats and key foreign service personnel from overseas...receptions and briefings with members of United Nations Missions...special U.N. tours permit you to attend General Assembly sessions and meetings of specialized agencies and committees.

"Foreign travel opportunities at any season of the year await the Council member with available time. Council-sponsored tours to various parts of the world inevitably include briefings at embassies and foreign ministries along with carefully tailored sight-seeing that fits the particular interests of Council tour participants.

For Young Professionals

"Lively, inquisitive minds and enthusiasm for penetrating the world's complexities are characteristics of the members of FORUM III, an informal series of Council programs delving "Inside International Issues" for Philadelphians in their 20's and 30's.

"Almost every week sees the presentation of topical subjects in a variety of formats accommodating the young professional's busy life...sandwich luncheons at Council Headquarters infuse the workday lunch hour with learning experiences and stimulating diversion from the week's routine.... Five Thirty Forums invite guest experts to expound upon topics of current interest in the relaxing congeniality of the cocktail hour.... Saturday workshops highlight various facets of a particular issue and let the individual enter one-to-one situations with authorities in that field...international film series run a gamut from Traffaut's whimsy to World War II documentaries...cocktail parties and wine tastings encourage participants to drink in the more social aspects of membership...dinner meetings provide the time to analyze and consider major foreign issues in the pleasant ambience generated by a good meal.

"FORUM III is shaped by its participants through bi-monthly planning meetings. Everyone is welcome to assist in the creation of new program formats, to provide or be a guest speaker, and to supply input for the success and direction of the series.

"Always informal, FORUM III seeks to provide an arena for discussion and debate, to provoke awareness, and to deepen its members' understanding of complex issues.

The Council's Services to the Community

"Council members' dues support a broad array of programs for the community at large – building on the Delaware Valley's intrinsic cosmopolitanism and adding continuity and depth to the area's longstanding commitment to world understanding and its concern for international issues.

Student, Teacher Programs

"One of the most important Council programs aims at students and teachers at the elementary, junior and senior high school levels in public, private and diocesan schools throughout Southeastern Pennsylvania, Southern New Jersey and Delaware. Covering this three-state area, these highly successful efforts create in student leaders an understanding of the world in which they are growing up. The programs emphasize the challenge of learning about other cultures and stress the interrelationship between domestic and world affairs. Each year some 750 separate program events attract more than twenty thousand students and teachers with a rich and stimulating assortment: background conferences for teachers which provide information on new curriculum areas – trips to the United Nations and the nation's capital...forums on key international issues...songs and dances of foreign countries....

United Nations Activities

"Each year, at the request of the mayor of Philadelphia, the Council coordinates the activities of United Nations Week...arranging receptions for foreign students and visitors...working with numerous local organizations...scheduling programs, exhibits and ceremonies...arranging radio and television programs to create broader world understanding.

Speakers and Films

"The Council is a fountainhead of program aid to organizations and schools seeking qualified speakers for their seminars, forums, assemblies and other programs. Annually the Council plans 150 events for a diversity of groups.

Bicentennial Program

"The Council III celebrated the nation's 200th birthday by convening an international conference attended by world leaders and renowned thinkers who analyzed "A Declaration of Interdependence" and a set of priorities for the Bicentennial decade starting in 1976." (Pamphlet, World Affairs Council.)

Production of Curriculum Materials on Global Interdependence

The main thrust of the World Affairs Council is global education and it has produced a large assortment of material for every age group. Each year the Council distributes "enrichment material", case study booklets, United Nations booklets, supplemental basic skill activities materials, senior high school seminar and forum background material, senior high school model United Nations materials to four main groups: (1) special education groups, (2) elementary schools, (3) junior high school schools, and (4) senior high schools.

Special Education

The Council reports that eight schools participated in the 1976-1977 special education program. The Council states that:

"A total of 130 students and their teachers participated in the program this year. They studied the 'One world approach to the basic needs of people....'

"...The visit to the United Nations climaxed the year's study for each class, expanding the children's awareness and horizons and enabled them to gain a deeper appreciation of world affairs...." (World Affairs Council, Department of Student-Teacher Activities, *Annual Report*, 1976, p.2.)

Elementary School Program

In the elementary school program, the Council states that:

"Sixth grade students from 35 schools were afforded the opportunity to study, for appreciation and understanding various cultures around the world. These cultures were studied on the basis of themes.

"The Program consisted of a six-week indepth study of four areas: One World/Interdependence, Food, Clothing/Shelter and Trade. For each unit of study each class was provided with filmstrips, slides, study prints, background and enrichment books. Booklets on these units were specially prepared by the World Affairs Council staff and sent to every participating student.

"...A reading guide for teachers was prepared in conjunction with the One World booklet.... As in preceding years, materials were shared with other classes; arrangements were made for additional classes to visit cultural centers; and extra buses were hired by individual schools, increasing the number of parents, teachers and students traveling to the U.N." (*Annual Report*, 1976, pp. 8-9.)

Junior High School Program

Concerning the junior high school program the Council states:

"This year's program dealt with four international themes: (1) Energy, (2) One World, (3) Declaration of Interdependence, (4) Trade.

"...Each participating student also received four booklets on the various themes specially prepared by the World Affairs council...." (*Annual Report*, 1976, p. 10.)

Senior High School Program

Concerning the senior high school program the Council states:

"Each year the World Affairs Council hosts a special planning meeting followed by dinner for the faculty sponsors who serve as liaisons between their respective schools and the Council. At this time World Affairs Council staff members discuss the proposed schedule of senior high school events with the participating teachers...." (*Annual Report*, 1976, p. 17.)

The council sponsored three "Add-Day Seminars" during 1976 and 1977. The topics were "China Today", "The Arab World" and "Perspectives in India".

The Council held two special "Morning Forums" where speakers discussed the presidential elections, U.S. foreign policy and the Earth's Resources.

They sponsored the "Club Presidents' Meeting" where 50 elected representatives from international relations clubs in various high schools meet at the Council's headquarters in Philadelphia.

The Council's "Senior High Development Program" consists of speakers visiting the classrooms and speaking informally with small groups of students. According to the *Annual Report*:

"...background materials specially prepared by the World Affairs Council staff were sent to the participating schools and students received individual subscriptions to *Newsweek*, *Time* and the *New York Times*. Each participating class also received the *Newsweek* Audio-Visual Kit 'The Making of American Foreign Policy.' These enrichment materials and resources are designed to enable participating students to do indepth study as a preparation for a follow-up to the topics of the year's forum and seminars.

"Throughout this special program students from these senior high schools had the opportunity to take a trip to New York where they toured the United Nations buildings and also had briefings with members of various U.N. Permanent Missions.... Emphasis was always put on the international dimensions of the places visited." (*Annual Report*, 1976, p. 21.)

Model Senate Foreign Relations Committee Hearings

In 1972, the Council developed the Model Senate Foreign Relations Committee Hearings program. The *Annual Report* states that:

"More than 100 students from 30 different schools participated in these sessions, playing the roles of Senators, Aides and various witnesses, including cabinet members, professors, businessmen and members of Congress. Other students acted as members of the press.

"Issues actually considered or about to be considered by the Senate Foreign Relations Committee formed the basis of material for these Model Hearings. In all cases, students offered testimony on both sides of the given issues.

"This year [1976] the format of the Hearings was slightly varied to permit the Committee to meet as a whole in the afternoon to hear witnesses on the limitation of U.S. intelligence activities in foreign countries and congressional procedures for improving oversight of central intelligence covert operations.

"Four years ago, when the Model Hearing project was first developed, the World Affairs Council staff worked in close cooperation with staff members of the Committee on Foreign Relations. This year the Committee was extremely helpful again, furnishing the Council with background information, the Committee calendar, and other relevant items. Prior to the program, the Council staff provided the participating schools with an extensive information packet. (*Annual Report*, 1976, p. 22.)

Model United Nations Program

The program in 1976 for high school students was the Model United Nations program. Concerning this program the Council states:

"More than 325 students from 51 schools representing 78 member nations of the U.N., as well as student observers and press representatives, attended the all-day program.

"The participating students began preparing for this Model United Nations in January, drafting their own resolutions for debate from topics provided by the World Affairs Council. Extensive background materials specially prepared by the staff were mailed to all participating schools to aid teachers and students in the preparation of their country delegations for this Model U.N.

"Resolutions on the following issues were debated and amended with each delegation taking the point of view of the country which it represented.

"Credentials Committee – Admission of Vietnam

"First Committee (Political) – Palestinian question

"Second Committee (Economic) – New International Economic Order

"Fourth Committee (Trusteeship) – Rhodesia

"Sixth Committee (Legal) – International Terrorism" (*Annual Report, 1976*, p. 22.)

Program for Teachers

One of the largest tasks completed by the World Affairs Council in the area of education was their 112 page *Interdependence Curriculum Aid*. The curriculum aid was specially designed for teachers to assist them in their global education process. Concerning this course aid the World Affairs Council stated the following:

"The Council, in pondering its role in the American Bicentennial, planned the drafting of "A Declaration of INTERdependence" as a means of extending the concept of independence to interdependence. At the same time, it was deemed important that the study of interdependence by American youth be part of the Bicentennial program.

"Thus the Council, in cooperation with the School District of Philadelphia, prepared the *INTERdependence Curriculum Aid*, containing relevant materials for inclusion in the school curricula. The idea for this teachers' Aid emerged from earlier discussions with local school administrators, curriculum experts and teachers who have been associated with the World Affairs Council's ongoing student program.

"The booklet was created to assist students in recognizing both the interconnection of global issues and the ideals and principles of interdependence as expressed by historian Henry Steele Commager in "A Declaration of INTERdependence." It was designed, too, to promote understanding of the complications of working toward those ideals through the maze of yesterday's traditions, folkways and human institutions. If these goals be achieved, the booklet will have fulfilled its purpose of preparing the student to live productively in an interdependent age.

"Divided into eight sections, the *INTERdependence Curriculum Aid* for secondary school teachers has been designed for use as a complete course, for integration into existing curricula or for use independently as mini-courses, which are so popular in schools today.

"Of the many global issues that are of concern today, those chosen for study were: Food and Nutrition; Global Economy: Money, Trade, Development; Human Rights; Oceans; The New Frontier; Peace and Disarmament; Resource Scarcity;

Science and Technology; World Law and International Institutions." (*Councilgram*, Fall 1976, p. 2.)

The Question of National Sovereignty

The World Affairs Council is very supportive of a "new world order." In a section the section entitled: "World Law and International Institutions". In a section of the curriculum guide entitled, "World Law and International Institutions," the World Affairs Council admits that, "The question of sovereignty is perhaps the most crucial in the evolution of international and global institutions." (p. 101.)

"The objective of the "World Law and International Institutions" section, according to the World Affairs Council, was "to help students to understand the concepts of international and supranational institutions, the differences between them the needs they are designed to fulfill and the obstacles to their development." (*Ibid.*) The following quotes are illustrative of world order concepts which the World Affairs Council hopes to instill in the youth of America in order to bring about the "new world order:"

Evolutionary Development of International Organizations

"One school of thought about the evolution and development of international institutions is called the *functionalist* or the *evolutionary* school. This school asserts that the present proliferation of transnational and international institutions will ultimately lead to an interlocking set of worldwide institutions providing us with a global system adequately organized to deal with the major world problems. Under this assumption, some put forth suggestions for individual, new institutions as a way of helping us achieve that global network. Some of these are proposed on regional bases to attend to problems in areas such as Latin America or Africa. Others are organized on the global basis. These global suggestions are usually presented as addenda to the present United Nations structure. One such proposal is, for example, the Ocean Regimes, a proposal based upon the assertion that the oceans are the common property of humankind, and therefore, should be globally administered and preserved. A number of non-governmental conferences have been held to discuss these proposals, as well as governmental conferences such as the 1973 Conference on the Law of the Seas." (p. 102.)

Strengthening the United Nations

"Another approach advocates amending and strengthening the United Nations by charter revisions and by the establishment of new, related special organizations and agencies. Many such international institutions have come into being in recent years, largely as the result of the United Nations conferences responding to certain crucial global problems. The Stockholm Conference of 1973 which dealt with environmental issues resulted in the establishment of the United Nations

Environmental Program. The Rome Conference of 1974 brought forth the World Food Council. Each of the many world conferences has concluded with declarations and plans of action for programs to be undertaken by member nations through the regular or newly established agencies or institutions or by special temporary committees. Thus, the conferences themselves become an important factor in the evolution of international institutions. (p. 103.)

A World Constitutional Convention

"Finally, there is the drastic system change approach. This is one which advocates a deliberate set of steps to institute major change in the international system within a very short period of time. Many of the advocates of world law adhere to this approach. One way in which a drastic change might be brought into being is a world constitutional convention similar to the type which brought forth the American federal government; that is, a meeting at which final agreement would be made by the nations of the world on a new governmental structure under which they would all be governed. Another approach to drastic system change is the charter revision approach. The members of the United Nations would agree to specific changes in the charter, transforming that organization from an international to a supranational institution. The charter revision approach is advocated most strongly by the Association of World Federalists, the American branch of which is the United World Federalists. For the most part, the members of this worldwide organization adhere to suggestions to transform the United Nations into a system of world law published in the book *World Peace Through World Law*. (p. 103.)

A Major World Crisis or Trauma

"There is, of course, another possible means to achieving drastic system change, a major world crisis or trauma, such as a nuclear war or a famine of such great proportion as to lead to large-scale violence as well as massive death by starvation; or an eco-catastrophe in which an environmental problem would come to be of such proportion as to demand institutional, radical reform in order to insure the survival of the planet. There are many serious scholars of world law and international institutions who frankly believe that only a catastrophe will bring about sufficient motivation to the nations of the world to take the necessary steps to establish an adequate system of global institutions. On the other hand, there are (particularly in the field of peace and world order research) a group of scholars and policy scientists who believe that although the trends are growing to such a proportion as to narrow the possibilities and the number of choices, there are still many steps which can be taken. Creative plans can be made, not only to design new institutions, but also to work out ways in which these institutions can be brought into being without large-scale violence, massive trauma or extensive human suffering. (p. 103.)

National Sovereignty Must be Limited

"What all of these groups have in common is the basic belief that present international institutions must be changed and most specifically, national sovereignty must be limited in certain areas if the human species is to survive. They have generally agreed that the major problems which must be addressed are those of war and violence, poverty and development, freedom and political participation, environmental health and social justice and the end of discrimination." (p. 103.)

What It Means to Establish a World Government

"The establishment of a world government is a very controversial issue because such a government would mean the loss of national sovereignty. The roots of the fear of world law are, to some degree, to be found in some of the key components of proposals for world government. In addition to sovereignty, the security issue is also a crucial one, creating anxieties in many persons who oppose all forms of world government. Persons who advocate strong national defense systems and support additional arms development tend to fear the United States being less prepared militarily than other nations. Not only would the nation state give up its right to take up arms in its own defense, it would also have to submit to the *compulsory jurisdiction* of a world court.

Two Major Components of World Law System

"These are two of the major components of the world law system and are central to the proposals of Clark and Sohn, which contain plans for a staged program of complete and general disarmament. Under *complete* and *general* disarmament, all nations would give up all arms with the exception of a small armed force to maintain domestic order. Disputes would be peacefully settled by the *World Court*.... National armies would be replaced by a *world peace force*, charged with keeping the peace and defending the security of nations. A *world revenue service* would collect taxes from nations to support the peace force and the legal services of the court. Another significant feature of the plan, attractive to those concerned about the drain of resources into defense systems, is the *world development authority*, whose resources would gradually increase as the cost of present arms system is reduced.

Making the U.N. an Authority to Make Laws

"Clark and Sohn drafted their proposals to meet what they considered to be the major weakness of the United Nations. The United Nations was, in 1945 at its founding (and still, in spite of the growing number of members each year) not universal in its membership. Universality then, was an important aspect of their proposal, as well as making the United Nations an authority to make laws in the field of peace and disarmament and enforce and interpret those laws.

The Present U.N.

"The present United Nations is viewed by some scholars to be an important source of international law. But so long as it is a part of a system of sovereign states, out and out enforcement is not one of its powers. It is important, however, to note that persuasion and prestige are important sources of enforcements within the present United Nations. Indeed, many believe that the world organization has grown tremendously and responded most creatively to world situations, in spite of the severe limitations on its resources. Even though it cannot force its members to support nor obey it, there are some who believe that the avoidance of a third world war would not have been possible had there been no United Nations.

Developing a Whole New Set of International Institutions

"Yet, there are many critics of the United Nations who say it not only reflects the sovereign nation state power system of the world, it also is organized according to the economic differences of the world, the major decisions having been made for a long time by the rich and powerful nations. On the other hand, in the late 60's and early 70's, the former colonial countries have become more and more powerful in the United Nations. The so-called "Group of 77" has, in fact, put forward a thrust leading to a whole new set of international institutions to deal with economic equity, namely the New International Economic Order. Some claim that the United Nations response to poverty and development is more vigorous than those of any of the plans for world law. World law, these supporters of the United Nations say, is more concerned with peacekeeping and war prevention." (p. 104.)

World Law Could Result in a Massive Repression of Civil Liberties

"One area which some students of global institutions find inadequately addressed in both the present proposals for world law and the presently structured United Nations is the area of human rights and political freedom. Some people fear world law could end in a massive repression of civil liberties throughout the world. Others say that the present repression, nation by nation, is growing so rapidly that world law could be no worse than where we are heading right now. Although the United Nations Human Rights Commission has increased its scope, it too lacks enforcement procedures, and even the Clark/Sohn plan gives minimal attention to the human rights question. However, many non-governmental, transnational organizations are especially concerned with these issues, and are working both to create a global consciousness about such problems and to take such action to overcome them. Among these groups are Amnesty International, the International League for Human rights and the International Commission of Jurists.

Shaping Appropriate World Agencies

"So students of world affairs and persons concerned with the future of humankind devote much attention to questions of world law and international

institutions. The basic task of survival is shaping appropriate world agencies and processes to assure peace, overcome poverty, protect human rights and preserve the environment." (p. 105.)

Global Interdependence Center

The World Affairs Council organized the Global Interdependence Center in collaboration with the University of Pennsylvania. According to the Council:

"The mission of the Global Interdependence Center shall be to develop U.S. involvement in the creative management through international institutions of the opportunities and obstacles arising from expanding global interdependence.

"The Center's organizers plan two types of programs initially: 1) private, off-the-record Consultations of experts and/or key actors in global fields in which critical institutional processes are blocked or underdeveloped, and 2) periodic public Assemblies (following the pattern of 1976), including both Philadelphians and national leaders, on a broad range of interdependence issues requiring both governmental and non-governmental responses from the American people.

"Center programs will make use of distinctive Philadelphia resources, e.g. the universally significant symbols of the American Revolutionary experience, and the exceptional international expertise of University scholars, and corporate and community leaders.

"Early programs are expected to focus on 1) issues growing out of the implementation of a new Law of the Sea treaty – or the challenge of coping with ocean affairs in the absence of or delay of a treaty, 2) the impact of human rights issues on the management of interdependence, 3) the organization of government to cope with interdependence, and 4) cities as transnational actors in the urban global system." (World Affairs Council, Global Interdependence Center Description Sheet, July 1977.)

National Council of Community World Affairs Organizations

To carry out the multitude of global education programs designed by the Council, it organized a National Council of Community Affairs Organizations throughout the United States. It is quite apparent that the Council is a vigorous proponent of global interdependence.

29. "The Declaration of Interdependence"

In 1973 the World Affairs Council determined that it was time to move from Independence to Interdependence. In order to accomplish this goal an Advisory Committee of the Council decided to develop the Bicentennial Era Program. It was entitled: "A Declaration of Interdependence: An American Response to New

Global Imperatives." According to the Council this program consisted of five major areas:

1. Drafting of "A Declaration of Interdependence."
2. Signing of the Declaration by members of Congress and other leading Americans to promote widespread awareness.
3. Arranging "interdependence Assemblies" and a joint consultation of U.S. organizations capable of furthering American initiatives in world affairs.
4. Sponsoring a Convocation of Specialized Agencies of the United Nations.
5. Encouraging deepened study of Interdependence by America's youth through such activities as the preparation of relevant materials for inclusion in school curricula. (*A Declaration of Interdependence Program Outline*, pp. 3-4.)

Step 1 – Drafting "A Declaration of Interdependence"

To accomplish "Step 1" of the World Affairs Council's goal to draft a "Declaration of Interdependence" they contacted professor Henry Steele Commager. Dr. Commager with the aid of a national committee produced the "Declaration."

The Council felt that the new Declaration would "set forth the realities of Interdependence and affirm the need for action to work toward world benefits through American initiative." (*Ibid.*, p. 5.) In other words, the stage would be set to begin building the necessary international institutions to comply with the construction of the "new Imperial System."

The Declaration of Interdependence, drafted on October 24, 1975 stated:

"When in the course of history the threat of extinction confronts mankind, it is necessary for the people of The United States to declare their interdependence with the people of all nations and to embrace those principles and build those institutions which will enable mankind to survive and civilization to flourish.

"Two centuries ago our forefathers brought forth a new nation; now we must join with others to bring forth a new world order. On this historic occasion it is proper that the American people should reaffirm those principles on which the United States of America was founded, acknowledge the new crises which confront them, accept the new obligations which history imposes upon them, and set forth the causes which impel them to affirm before all peoples their commitment to a Declaration of Interdependence.

"We hold these truths to be self-evident: that all men are created equal; that the inequalities and injustices which afflict so much of the human race are the product of history and society, not of God or nature; that people everywhere are entitled to the blessings of life and liberty, peace and security and the realization of their full potential; that they have an inescapable moral obligation to preserve those rights for posterity; and that to achieve these ends all the peoples and nations of the globe should acknowledge their interdependence and join together to dedicate their minds and their hearts to the solution of those problems which threaten their survival.

"To establish a new world order of compassion, peace, justice and security, it is essential that mankind free itself from the limitations of national prejudice, and acknowledge that the forces that unite it are incomparably deeper than those that divide it – that all people are part of one global community, dependent on one body of resources, bound together by the ties of a common humanity and associated in a common adventure on the planet Earth.

"Let them join together to vindicate and realize this great truth that mankind is one, and as one will nobly save or irreparably lose the heritage of thousands of years of civilization. And let us set forth the principles which should animate and inspire us if our civilization is to survive.

"We affirm that the resources of the globe are finite, not infinite, that they are the heritage of no one nation or generation, but of all peoples, nations and of posterity, and that our deepest obligation is to transmit to that posterity a planet richer in material bounty, in beauty and in delight than we found it. Narrow notions of national sovereignty must not be permitted to curtail that obligation.

"We affirm that the exploitation of the poor by the rich, and the weak by the strong violates our common humanity and denies to large segments of society the blessings of life, liberty and happiness. We recognize a moral obligation to strive for a more prudent and more equitable sharing of the resources of the earth in order to ameliorate poverty, hunger and disease.

"We affirm that the resources of nature are sufficient to nourish and sustain all the present inhabitants of the globe and that there is an obligation on every society to distribute those resources equitably, along with a corollary obligation upon every society to assure that its population does not place upon Nature a burden heavier than it can bear.

"We affirm our responsibility to help create conditions which will make for peace and security and to build more effective machinery for keeping peace among the nations. Because the insensate accumulation of nuclear, chemical and biological weapons threatens the survival of Mankind we call for the immediate reduction and eventual elimination of these weapons under international

supervision. We deplore the reliance on force to settle disputes between nation states and between rival groups within such states.

"We affirm that the oceans are the common property of mankind whose dependence on their incomparable resources of nourishment and strength will, in the next century, become crucial for human survival, and that their exploitation should be so regulated as to serve the interests of the entire globe, and of future generations.

"We affirm that pollution flows with the waters and flies with the winds, that it recognizes no boundary lines and penetrates all defenses, that it works irreparable damage alike to Nature and to Mankind – threatening with extinction the life of the seas, the flora and fauna of the earth the health of the people in cities and the countryside alike – and that it can be adequately controlled only through international cooperation.

"We affirm that the exploration and utilization of outer space is a matter equally important to all the nations of the globe and that no nation can be permitted to exploit or develop the potentialities of the planetary system exclusively for its own benefit.

"We affirm that the economy of all nations is a seamless web, and that no one nation can any longer effectively maintain its processes of production and monetary systems without recognizing the necessity for collaborative regulation by international authorities.

"We affirm that in a civilized society, the institutions of science and the arts are never at war and call upon all nations to exempt these institutions from the claims of chauvinistic nationalism and to foster that great community of learning and creativity whose benign function it is to advance civilization and the health and happiness of mankind.

"We affirm that a world without law is a world without order, and we call upon all nations to strengthen and to sustain the United Nations and its specialized agencies, and other institutions of world order, and to broaden the jurisdiction of the World Court, that these may preside over a reign of law that will not only end wars but end as well the mindless violence which terrorizes our society even in times of peace.

"We can no longer afford to make little plans, allow ourselves to be the captives of events and forces over which we have no control consult our fears rather than our hopes. We call upon the American people, on the threshold of the third century of their national existence, to display once again the boldness, enterprise, magnanimity and vision which enabled the founders of our Republic to bring forth a new nation and inaugurate a new era in human history. The fate of humanity

hangs in the balance. Throughout the globe, hearts and hopes wait upon us. We summon all Mankind to unite to meet the great challenge.

2 – Signing the Declaration

America's celebration of its Declaration of Independence in 1776 provided the World Affairs Council with an excellent opportunity to stage a ceremonial signing of the Declaration of Interdependence on January 30, 1976 in Congress Hall at Philadelphia. A congressional delegation signed the document at this time and over 100 U.S. Senators and Congressmen endorsed its content.

Step 3 – Interdependence Assemblies

The World Affairs Council held twenty Interdependence Assemblies in Philadelphia, Washington, D.C. and New York with various U.S. organizations which "have the capability of playing significant roles internationally..." (*A Declaration of Interdependence Program Outline*, p. 7.) The following organizations comprised the initial roster of those cooperating with the Council's program: American Assembly, American Chemical Society, American College of Physicians, American Institute of Architects, Aspen Institute's Program in International Affairs, COSPAR: The Committee on Space Research, Council on Foreign Relations, Fund for Peace, Girl Scouts "Intercontinental Congress – '76", International Peace Academy, Members of Congress for Peace Through Law, National Council of Community World Affairs Organizations, Inc., Section of International Law, American Bar Association, U.S. Council of the International Chamber of Commerce. (*Ibid.*, p. 8.)

According to the Council:

"These organizations, through their membership and many years of active programs help to mold this country's foreign policy public opinion, international cultural activities, and have a broad input into the determination of America's global relationships." (*Ibid.*, p. 7.)

The Interdependence Assemblies focused on Dr. Commager's Declaration in such areas as: "...peacemaking, health, population, nutrition, education, urban planning, energy, environmental protection, finance and trade, space exploration, the uses of ocean resources, nuclear disarmament, intercultural exchange, and world law and human rights, among others." (*Ibid.*)

Each of the above organizations were requested by the World Affairs Council to plan "its programming for the Bicentennial Era, 1976-1989, in light of the Declaration." (*Ibid.*)

The fall 1976 *Councilgram* reported that:

"In the late summer, representatives of those Assemblies and other leading Americans met to advise Harlan Cleveland, Director of the Aspen Institute's Program in International Affairs, in the preparation of a major report synthesizing the opinions reached during the sessions of the Assemblies. That report, *The Third Try at World Order*, published in October by the Council, provided the principal direction of the Council's Bicentennial Era program for the years ahead."

Step 4 – Convocation of U.N. Specialized Agencies

On October 21, 1976 a special convocation of leaders of the Specialized United Nations and the World Court met in Philadelphia. The World Affairs Council reported that:

"Senior representatives of these groups from points around the world [were to] meet to receive reports on the progress and plans of U.S. organizations in addressing themselves to the challenge of the Declaration."

The specialized and related agencies of the U.N. which participated were: Food and Agriculture Organization, Inter-Governmental Maritime Consultative Organization, International Atomic Energy Agency, International Bank for Reconstruction and Development "World Bank", International Civil Aviation Organization, International court of Justice "World Court", International Development Association, International Finance Corporation, International Labor Organization, International Monetary Fund, International Telecommunications Union, United Nations Educational Scientific and Cultural Organization, United Nations Children's Fund, Universal Postal Union, and World Health Organization. (*Ibid.*, pp. 9-10.)

Step 5 – Interdependence in School Curricula

The World Affairs Council planed a vigorous effort in the next eleven years culminating in 1989 as witnessed by the following statement:

"It is timely to reach as many students as possible at all grade levels in our primary and secondary schools to carry an awareness of Interdependence into America's third century. These very students will be called upon to make decisions based on the ideas set forth in the Declaration and the actions initiated by participating bodies.

"The World Affairs Council of Philadelphia will expand its already well-established school program, and work to ensure that the Declaration and its precepts will be included in the curricula and the texts of our schools.

"Starting with the schools of our region as a base, the prospects for national involvement are realistic and are being actively pursued. The National Education

Association, Overseas Development council, and Foreign Policy Association are assisting in this effort." (*Ibid.*, p.11.)

The Declaration of Interdependence is an excellent summary of the goals of the elite internationalists who are working fervently to create a "new Imperial System."

30. The Fabian Society and the Age of Democratic Socialism

"Those who resist socialism fight against principalities and powers in economic places."

These words taken from *Fabian Essays in Socialism*, edited by George Bernard Shaw in 1889, ring true today in many countries throughout the world – Afghanistan, Argentina, Belgium, Brazil, Canada, Chile, China, Czechoslovakia, Denmark, Egypt, France, Germany, Hungary, Israel, Japan, Laos, Mexico, the Netherlands, Nicaragua, Norway, Peru, Poland Zimbabwe, Sweden, Turkey, Uganda, Russia, the United Kingdom, the United States of America and Zaire.

Socialism in one form or another, especially democratic socialism, is fast becoming the predominant political, economic and social philosophy adhered to by the majority of the inhabitants of the earth. Indeed the last half of the twentieth century can be appropriately terms the "age of democratic socialism" An understanding of why this change is taking place requires a look at the nature and history of socialism, at its major principles and its influence, and at various contemporary attitudes toward it.

1. Nature and History of Socialism

Definitions of Socialism

Webster defines socialism as "a political and economic theory of social organization based on collective or governmental ownership and democratic management of the essential means for the production and distribution of goods; also a policy or practice based on this theory." (*Webster's New International Dictionary*, 2nd edition, unabridged, 1951.)

According to George Bernard Shaw, a leading Fabian Socialist: "Socialism, reduced to its simplest legal and practical expression, means the complete discarding of the institution of private property by transforming it into public property and the division of the resultant income equally and indiscriminately among the entire population." (*Encyclopedia Britannica*, 1946, Vol. 20, p. 895.)

George Douglas Howard Cole, formerly a leading democratic socialist at Oxford, noted that "Socialism is essentially a doctrine and a movement aiming at the collective organization of the community in the interest of the mass of the

people by means of the common ownership and collective control of the means of production and exchange." (*Ibid.*, p. 888.)

Types of Socialism

Socialism comes in a variety of forms. Communism is socialism pursued by revolutionary means. Democratic socialism is socialism pursued by peaceful or constitutional means. National socialism is socialist dictatorship which places more emphasis on nationalism than on internationalism. In Germany nationalism was called Nazism, which was socialism pursued in a rigid political environment, similar to fascism. In the western world the predominant form of socialism being advocated is democratic socialism.

Two Systems of Revolutionary Thought Emerge in Europe

Until the middle 1700s, the predominant philosophy among the various socialist groups was utopian socialism, "socialism based on a belief that social ownership of the means of production can be achieved by voluntary and peaceful surrender of their holdings by propertied groups." (*Webster's Seventh New Collegiate Dictionary*, G. & c. Merriam Co., Springfield, Massachusetts, 1972, p. 978.)

In the latter half of the 1750s a monumental change occurred in Europe when two systems of revolutionary thought suddenly emerged. One system, known as socialism and communism, dealt with the political, economic and social order. The other system, known as higher criticism, rationalism or secular humanism, dealt an iconoclastic assault on religious beliefs and added justification to the first system.

Though many elements of the socialist and communist system had their beginnings with Plato's *Republic* and the other ancient writers and philosophers, the writings of such men as Fourier and Rousseau gave early impetus to these two systems in the eighteenth and nineteenth Centuries. Rousseau's *Control Social* was published in 1762, and Fourier's *The New Industrial and Social World* appeared in 1829. Other prominent utopian works printed in this period included Saint Simon's *New Christianity* (1825) and Robert Owen's *Book of the New Moral World* (1836).

Karl Marx Identifies Himself as Militant Socialist

Gradually the philosophy of socialism and communism gained control in Europe and started spreading throughout the world. At this same time several critics of utopianism arose and began actively pursuing a more revolutionary approach toward the implementation of socialist ideology. One of the strongest critics of utopianism was Karl Heinrich Marx, born in Trives, Germany, May 5, 1818. Marx received the Doctor of Philosophy degree at the University of Jena in 1841. A thorough student of the "dialectics of Hegel," the German philosopher, Marx, at the age of 25, was already a socialist of deep conviction. Between 1843

and 1844 he read deeply into socialist literature that was being distributed throughout France and Germany as well as other European nations.

The League of the Just Commissions Marx to Formulate the Communist Manifesto

Since the latter half of the 1750s various individuals and groups have been propagating socialist and communist doctrines. By the 1840s a society known as the League of the Just had established itself in various cities in Europe.

For many years the words *socialism* and *communism* had been used interchangeably but by 1848 the word *communism* was becoming more closely identified with revolutionary socialism while the term *socialism* was still being applied to the various forms of utopianism. Perhaps this explains why the League of the Just changed its name to the Communist League and why the proclamation of its beliefs was published as the "Communist Manifesto."

It was the League of the Just that commissioned Karl Marx and Frederick Engels to prepare the "Communist Manifesto" in the early winter of 1947.

The Communist Manifesto

The "Communist Manifesto" is the joint production of Marx and Engles, though, according to modern scholars, the major codification of socialist or communist ideology is attributed to Marx.

The "Manifesto" openly published the goals and aims of revolutionary communism as propagated by Marx and his associates. The following key excerpts illustrate their political, economic and social philosophy.

"A specter is haunting Europe – the specter of communism....

"...It is high time that Communists should openly in the face of the whole world, publish their views, their aims, their tendencies, and meet this nursery tale of the specter of communism with a Manifesto of the party itself.

"To this end, Communists of various nationalities have assembled in London, and sketched the following Manifesto....

Abolition of Private Property

"...The distinguishing feature of Communism is not the abolition of property generally, but the abolition of bourgeois [Capitalist] property. But modern bourgeois private property is the final and most complete expression of the system of producing and appropriating products, that is based on class antagonisms, on the exploitation of the many by the few.

"In this sense, the theory of the Communists may be summed up in the single sentence: the abolition of private property....

Destruction of Individuality and the Free Market System

"...In bourgeois society [Capitalist society]...the past dominates the present; in Communist society, the present dominates the past. In bourgeois society capital is independent and has individuality, while the living person is dependent and has no individuality.

"And the abolition of this state of things is called by the bourgeois abolition of individuality and freedom! And rightly so. The abolition of bourgeois individuality, bourgeois independence, and bourgeois freedom is undoubtedly aimed at.

"By freedom is meant, under the present bourgeois conditions of production, free trade, free selling and buying....

Everything Based on Economics

"...Your very ideas are but the outgrowth of the conditions of your bourgeois production and bourgeois property, just as your jurisprudence is but the will of your class made into a law for all, a will, whose essential character and direction are determined by the economic conditions of existence of your class....

Abolition of the Family

"Abolition of the family! Even the most radical flare up at this infamous proposal of the Communists.

"On what foundation is the present family, the bourgeois family, based? On capital, on private gain. In its completely developed form this family exists only among the bourgeoisie. But this state of things finds its complement in the practical absence of the family among the proletarians and in public prostitution.

"The bourgeois family will vanish as a matter of course when its complement vanishes, and both will vanish with the vanishing of capital.

Children to be Raised by the State

"Do you charge us with wanting to stop the exploitation of children by their parents? To this crime we plead guilty.

"But, you will say, we destroy the most hallowed of relations when we replace home education by social.

Education Directed by the State

"And your education! Is not that also social and determined by the social conditions under which you educate, by the intervention, direct or indirect, of society, by means of schools, etc? The communists have not invented the intervention of society in education; they only seek to alter the character of that intervention and to rescue education from the influence of the ruling class.

Hallowed Family Relations Detested

"The bourgeois claptrap about the family and education, about the hallowed relationship between parent and child, becomes all the more disgusting, the more that, as a result of modern industry, all family ties among the proletarians are torn asunder and their children transformed into simple articles of commerce and instruments of labor....

Wives in Common

"Bourgeois marriage is in reality a system of wives in common, and thus, at the most, what the Communists might possibly be reproached with it that they desire to introduce, in place of a hypocritically concealed community of women, an openly legalized one....

Abolish National Sovereignty

"The communists are further reproached with desiring to abolish countries and nationalities.

"The working men have no country. We cannot take from them what they have not got. Since the proletariat must first of all acquire political supremacy, must rise to be the leading class of the nation [compulsory unionism], must constitute itself *the* nation, it is itself national, though not in the bourgeois sense of the word....

Abolish All Religion and Morality

"...There are, besides, eternal truths, such as Freedom, Justice, etc., that are common to all states of society. But Communism abolishes eternal truths; it abolishes all religion, and all morality, instead of constituting them on a new basis; it therefore acts in contradiction to all past historical experience....

Proletariat to be Made the Ruling Class

"We have seen above that the first step in the revolution by the working class is to raise the proletariat to the position of ruling class, to win the battle of democracy.

"The proletariat will use its political supremacy to wrest, by degrees, all capital from the bourgeoisie, to centralize all instruments of production in the hands of the State (i.e., the proletariat organized as the ruling class), and to increase the total of productive forces as rapidly as possible.

"Of course, in the beginning, this cannot be effected except by means of despotic inroads on the right of property and on the conditions of bourgeois production; by means of measures, therefore, which appear economically insufficient and untenable, but which, in the course of the movement, outstrip themselves, necessitate further inroads upon the old social order, and are unavoidable as a means of entirely revolutionizing the mode of production.

Ten-Point Program for Eliminating Capitalism throughout the World

"Nevertheless in the most advanced countries, the following will be pretty generally applicable.

1. Abolition of property in land and application of all rents of land to public purposes.
2. A heavy progressive or graduated income tax.
3. Abolition of all right of inheritance.
4. confiscation of the property of all emigrants and rebels.
5. Centralization of credit in the hands of the State, by means of a national bank with State capital and an exclusive monopoly.
6. Centralization of the means of communication and transport in the hands of the State.
7. Extension of factories and instruments of production owned by the State; cultivation of waste-lands; and improvement of the soil generally in accordance with a common plan.
8. Equal liability of all to labor. Establishment of industrial armies, especially for agriculture.
9. Combination of agriculture with manufacturing industries; and gradual abolition of the distinction between town and country by a more equable distribution of the population over the country.
10. Free education for all children in public schools. Abolition of children's factory labor in its present form. Combination of education with industrial production, etc....

Advocacy of Christian Socialism Instead of True Christianity

"Nothing is easier than to give Christian asceticism a Socialist tinge. Has not Christianity declaimed against private property, against marriage, against the State? Has it not preached in the place of these, charity and poverty, celibacy and mortification of the flesh, monastic life and Mother Church? Christian Socialism is but the holy water with which the priest consecrates the heart-burnings of the aristocrat....

Socialist and Communist Publications

"...Socialist and communist publications...attack every principle of existing society. Hence they are full of the most valuable materials for the enlightenment of the working class. The practical measures proposed in them – such as the abolition of the distinction between town and country; the abolition of the family, private gain, and the wage system; the proclamation of social harmony; the conversion of the functions of the state into a mere superintendence of production – all these proposals point solely to the disappearance of class antagonisms which were, at that time, only just cropping up, and which, in these publications, are recognized only in their earliest indistinct and undefined forms. These proposals, therefore, are of a purely utopian character....

Support Every Revolutionary Movement

"In France the Communists ally themselves with the Social Democrats....

"In Switzerland they support the Radicals....

"In Poland they support the party that insists on an agrarian revolution.

"In Germany they fight with the bourgeoisie whenever it acts in a revolutionary way against the absolute monarchy, the feudal squirearchy, and the petty bourgeoisie....

"In short, the Communists everywhere support every revolutionary movement against the existing social and political order of things.

"In all these movements they bring to the fore, as the leading question in each, the property question, no matter what its degree of development at the time.

"Finally, they labor everywhere for the union and agreement of the democratic parties of all countries.

"The Communists disdain to conceal their views and aims. They openly declare that their ends can be attained only by the forcible overthrow of all existing social

conditions...." (Arthur P. Mendel, ed., *Essential Works of Marxism*, New York: Bantam Books, Inc., 1971, pp. 13, 26, 27, 29-30, 31, 32-33, 35, 41-43.

Europe Aflame with Revolution

While the manifesto was being prepared Europe was already aflame with revolution. In 1848 Marx joined with other revolutionists and until his death in 1883 spent his life writing and advocating communist ideology.

Theoretical Tools for Construction of a World Socialist State

Marx's economic interpretation of history, his doctrine of class struggle and his theory of value have provided modern socialists with theoretical tools for the construction of a socialist world state.

Just as the writings of the utopian socialists were modified and updated the writings of Marx and Engels and others were also modified to some degree as new events and changes transpired. However, Marxist socialism continued to play a dominant role.

The Fabian Society of England Established

In March of 1883 a small group of people gathered in London to listen to Thomas Davidson outline a future socialist state. Out of this meeting emerged the Fabian Society of England, which was officially initiated on January 4, 1884. Today it is the oldest socialist organization in the world.

Fabians Develop New Strategy for Attainment of Socialist Goals

As noted by Harry W. Laidler, one of the leading socialist writers in America, the Fabians adapted to the changing conditions of industry, etc. that were emerging in England in the late 1800s and formulated a new strategy for attainment of socialist goals:

"...Fabian socialism regarded the transition from capitalism to socialism as a gradual process; looked forward to the socialization of industry by the peaceful economic and political agencies already at hand; saw in the middle class a group that could be utilized in developing the technique of administration in behalf of the new social order, and felt that an important step in the attainment of socialism was the arousing of the social conscience of the community in favor of the socialist ideal." (*History of Socialism*, New York: Thomas Y. Crowell, Co., 1968, p. 184.)

Thus a new concept known as "democratic socialism" was beginning to develop. The Fabians or democratic socialists believed in utilizing existing governmental machinery for the gradual attainment of socialism and thus were operating upon the same principles as the German Social Democratic party.

A Major Distinction Between Communists and Socialists

One of the main differences between democratic socialists and communists is one of tactics. Democratic socialists shun the revolutionary activities of communists, but are more willing to work with the communists than the capitalists.

As noted by Professor G.D.H. Cole, who became Chairman of the Fabian Society in 1941:

"The distinction between socialism as represented by the various socialist and labour parties of Europe and the New World, and communism, as represented by the Russians and the minority groups in other countries, is one of tactics and strategy rather than of objective. Communism is indeed only socialism pursued by revolutionary means and making its revolutionary method a canon of faith. Communists, like other socialists, (1) believe in the collective control and ownership of the vital means of production and (2) seek to achieve through state action the coordinated control of the economic forces of society. The [the Communists] differ from other socialists in believing that this control can be secured, and its use in the interests of the workers ensured, only by revolutionary action leading to the dictatorship of the proletariat and the creation of a new proletariat state as the instrument of change." (*Encyclopedia Britannica*, 1946, Vol. 20, p. 890.)

2. Major Principles of Socialism and Its Influence

The Fabian Society Issues Its Basis

In 1887 the Fabian Society issued its Basis, which still functions as its Basis today, and which states:

"The Fabian Society consists of socialists.

"It therefore aims at the reorganization of society by the emancipation of land and industrial capital from individual and class ownership, and the vesting of them in the community for the general benefit....

"The Society accordingly works for the extinction of private property in land....

"The Society, further, works for the transfer to the community of the administration of such industrial capital as can be conveniently managed socially....

"For the attainment of these ends the Fabian Society looks to the spread of socialist opinions, and the social and political changes consequent thereon...." (Laidler, *History of Socialism*, p. 189.)

Society Named after Roman General

The Fabian Society was named after the Roman General Quintus Fabius Maximus, who believed in first developing a careful strategy, patiently waiting for the right moment and then striking as hard as possible.

The Fabian Essays

One of the first works to appear on democratic socialism was *Fabian Essays in Socialism* edited by George Bernard Shaw and first published in 1889. *Fabian Essays* was written by George Bernard Shaw, Sidney Webb, William Clarke, Sydney Olivier, Graham Wallas, Annie Besant and Hubert Bland.

In the preface to *Fabian Essays* George Bernard Shaw states: "The writers of all Social Democrats, with a common conviction of the necessity of vesting the organization of industry and the material of production in a State identified with the whole people by complete Democracy." (Doubleday & Co., Inc., Garden City, N.Y., 1889, p. 6.)

Key Concepts of the *Fabian Essays*

The key tenets set forth in the *Essays* are as follows.

1. Elimination of private ownership of land.
2. Governmental ownership or control of all land.
3. Governmental ownership or control of major industries.
4. Governmental control over labor.
5. Governmental control or ownership of communications and transportation.
6. Governmental control of all credit.
7. Governmental control of all insurance.
8. Governmental control of the educational system.
9. Elimination of the significance of the family.
10. Elimination of the significance of religion.
11. Justified use of force if necessary to attain socialistic goals.
12. Establishment of a minimum wage and a maximum working class.

13. A universal system of pensions.

Permeation of England's Government

Almost as soon as it was formed the Fabian Society began to permeate England's government. After the Society created the constitution of the Labour Party, numerous Fabians appeared in high places in the Cabinet, the Parliament and the Civil Service.

The Fabians have laid great stress on carefully planned strategy. Although not successful in every instance, they have consistently and diligently fought for adoption of socialism in England and throughout the world.

The Strategy of Democratic Socialism

Concerning the strategy of democratic socialism E.F.M. Durbin, a noted socialist, has stated:

"...If the economic system is in urgent need of reform, and if the maintenance of democracy is an essential condition of social justice, how can the one be used to secure the other? How can expansionist and egalitarian policies be secured through the practice of the democratic method? The democratic socialist must discover such a strategy...."

"The preservation of democracy consists in the maintenance of government by consent, and in the toleration of all opposition to the government, in so far as it accepts the primary and fundamental obligation of democracy – the contract of mutual toleration between the Parties. The problem of strategy facing the democratic socialist is therefore to find a policy that makes an advance towards socialism, and yet does not render the continuation of democracy impossible. It is consequently easy to state the formal conditions for the solution of the problem. A programme must be found that fulfills these three conditions:

"(1) It must not be so extreme that it drives the opposition to it into *armed* resistance, or rebellion.

"(2) It must not be so emasculated that it fails to retain the active and loyal support of the reforming democratic party that is asked to advocate it.

"(3) It must lie in the relevant sphere of policy – the sphere of economic and social measures.

"Let me say a word about each of these purely formal conditions in turn:

"(1) The *first* essential condition for a successful democratic strategy is that it should not force the opposition into *armed* rebellion...."

"(2) One Central problem of action in a democracy is to reconcile the enthusiastic aspirations of the active minority within each party in the state with the slower moving and less radical requirements of the great mass of the electorate....

"(3) Finally, the programme must be in the relevant sphere of social action. It must, that is to say, be concerned with the transfer of economic control and the redistribution of real income....

Four Types of Economic and Social Legislation

"If we consider the field of economic and social legislation from which measures must be selected to compose any internal political programme there are, I suggest, four different types of measures that it will be wise to distinguish from each other. They are:

"1. *Ameliorative Measures*. By Ameliorative legislation and administration I mean the use of the power of the State to ameliorate the condition of the relatively poor. Of this type of measure the social services are the most important example. By them education, the care of the ill, the unemployed, and the old, [are] financed out of the proceeds of general taxation. In addition to the transfer of real income thus secured, there is a great deal of regulative legislation, the object of which is to secure a reasonable degree of safety in the conditions of employment....

"2. *Socialization Measures*. By measures of socialization I understand the acquisition by the State of the power to decide the output, investment and employment policy of any economic undertaking. The classical method for acquiring such power, advocated by the European Socialist Movement...is that of 'nationalization' – or the compulsory purchase by the State of the controlling property rights in economic enterprises. but it is obvious that this is not the only possible method of obtaining control. It is the most forthright and comprehensive; but there may be useful 'half-way houses' that will give substantial control without ownership....

"3. *Prosperity Measures*. Quite different in kind from either of the foregoing groups of measures are legislative acts and, more important, administrative acts the purpose of which is to maintain and increase the volume of industrial activity....

"4. *Egalitarian Measures*. Finally there are the measures, primarily of taxation, that aim directly at changing the inequality in the distribution of income and wealth....

"These, then, are the elements from which a successful [democratic socialist] programme must be constructed...." (E.F.M. Durbin, *The Politics of Democratic Socialism*, London: Routledge and Kegan Paul LTD, 1940, pp. 283-284, 288, 290, 292, 294, 295, 297.)

Official Description of the Fabian Society

An official pamphlet of the society describes its progress and philosophy as follows:

What We Are

"The Fabian Society is the source of radical socialist ideas. A major claim. But one supported by the evidence. Since it started in 1884, the Society has been years, if not decades, ahead of Labour Party policy.

"And the same is true today.

"In all areas of policy – economic, social, educational, international – it is the pamphlets, tracts, meetings and seminars of the Fabian Society that provide the ideas and provoke the thoughts. All this activity is carried out within a blindingly simple frame-work...the aim of establishing a socialist society, where the words justice, equality and brotherhood take on their true historical significance.

"The Fabian Society is pledged to fight this good fight. It does so with words, with ideas, with persuasion. And with results.

"It was the Fabian Society in 1900, along with the Trades Unions, which established the Labour Representation Committee. It was Rule 2 of the Fabian Constitution which, in 1918, was adopted in spirit by the Labour Party as the fourth clause in their constitution. Beveridge, the architect of the most sweeping social reforms this country has seen, worked out his ideas through the Fabian Society.

"Over the years, leaders and thinkers in the Labour Movement have been active in the society. Nye Bevan, Clem Attlee, Hugh Gaitskell, Richard Titmuss, G.D.H. Cole, Richard Crossman, Tony Crosland, Beatrice Webb...the list goes on. And today, most of the senior members of the Party retain the active membership that they began in their youth.

"To join this roll requires only two commitments from you.

"The first is that you are committed to working for the creation of a society which is truly socialist.

"The second is the acceptance by you that other individuals have points of view, that dogma is no substitute for debate.

"If these commitments are your commitments, if our ideals are your ideals and if you are prepared to put your views to the challenge and to accept honest inquiry and democratic discussion, then join the Fabian Society.

"Now.

What We Believe

"We believe in a socialist society. We work towards that end. Our second rule is the constitution states that we aim...'at the establishment of a society with equality of opportunity, where the economic power and privileges of individuals and classes are abolished and where there is democratic control of economic resources'.

"We believe in the Labour Party. We were parent to the Labour Party. We are enthusiastically affiliated to the Labour Party.

"We support the Charter of the United Nations and the Universal Declaration of Human Rights.

How We Work

"We have only three weapons to fight our fight. Words. Words. Words.

"Not for us the edict from above. Not for us the centralized doctrine. All members of the society have the right to put forward their views as individuals. That is why we have no collective policy. Through us, individuals are able to state, and take responsibility for, their views and arguments. We do this by publishing pamphlets and tracts, by holding discussions and meetings. We are determined to preserve this independence of individual view so that all may comment freely. We judge the contributions solely on merit, not on posture.

"We pass no political resolutions as a Society. Which does not mean we are afraid of the crunch. We simply believe and encourage our members in the belief, that the best place for these resolutions is in the Labour Party branches, in the Unions and in Co-op meetings. Our function is not to substitute. It is to complement, reinforce and cajole.

"And we are influential. A glance at our list of pamphlets shows who writes for us. Cabinet ministers, researchers, MPs, lecturers, trade unionists.

"We provide a forum for people from different backgrounds and different ideas. We act as a catalyst for many views. We provide a laboratory to test ideas. "That is how we work....

Our Organization

"We have a paid staff of seven. They are based at Dartmouth Street, close to Parliament Square. Their job is to edit and publish at least one pamphlet and 'Fabian News' each month, to organize seminars and schools, to co-ordinate the Society's activities and help our 100 local societies. The bulk of the writing,

research and out-of-London organization is done voluntarily by members. It is through the local societies that the Fabian Society provides the opportunity for members around the country to participate in the work of the Society. They hold their own meetings, organize their own activities and act as a channel between the individual member and the Society's Executive and staff.

"Each year we have an annual general meeting and elections for the Executive. Its job is to maintain the finances and staffing of the Society, set priorities for research and other work and approve publications. Five research committees provide a fund of specialist expertise and the stimulus for seminars, pamphlets and other activities.

"A committee organizes a number of residential schools both in this country and abroad. In the past few years, members have attended seminars and schools on modernizing government, trade unionism in the eighties, regionalism, economic strategies, broadcasting, reforming supplementary benefits, health policy, eastern Europe and democracy in the Labour Party.

"The Local Societies Committee is responsible for establishing, co-ordinating and encouraging local societies.

"For those under 30, there is a special section, the Young Fabians. As well as being members and participating in the full range of activities of the Society, Young Fabians elect their own executive, arrange their own meetings, seminars and schools and sponsor their own pamphlets.

"it is a fairly simple organization which befits a body like ours with its strong belief in autonomy and differing viewpoints.

"It is a measure of our insistence on the quality of our work that we are widely recognized as being well worth listening to. This is true not only of the Labour Party itself but Royal Commissions, parliamentary committees, trade unions and inter-governmental bodies. We keep very clearly in mind what we are is what we say. We have only the power to stimulate and persuade. Our organization is designed to serve that end.

"Our 6,000 members are the strongest guarantee that we will retain our impact and relevance.

Recent Pamphlets

The following are a list of pamphlets produced by the Fabian Society:

"Inner City" – Nicholas Falk, Haris Martinos; "Planning Without Growth" – David Eversley; "Inflation and Low Incomes" – Paul Lewis and others; "Labour's Social Priorities" – Howard Glennerster (ed); "Whose Schools?" – Anne Corbett;

"Advice Services in Welfare Rights" – Rosalind Brooke; "Middle East Impasse: The Only Way Out" – Tony Klug; "The Picket and the Law" – Chris Ralph; "Influencing Europe" – Roy Manley, Helen Hastings; "Transnational Corporations" – Carl Wilms Wright; "Import Controls: The Case Against" – Vincent Cable; "Finance for Development?" – Christopher Parsons; "New Deal for the Elderly" – Nicholas Bosanquet; "Social Democracy in Europe" – Anthony Crosland; "NHS Revisited" – Barbara Castle; "A Positive Incomes Policy" – William Brown, Keith Sisson; "In Pursuit of Equality" – Barbara Wootton; "Britain's Migrant Workers" – Sue Ashtiany; "Changing Prospects for Direct Labour" – John Tilley; "Labour and Local Politics" – John Gyford, Richard Baker; "A Policy for Warmth" – Muir Gray and others; "Reforming the house of Commons" – Lisanne Radice; "Electing Europe's First Parliament" – Northawl and Corbett; "What Future for the Falklands?" – Colin Phipps; "The Labour Party: Crisis and Prospects" – Dianne Hayter; "A Competitive Pound" – Bryan Gould and others; "Thank Small: Enterprise and the Economy" – Nicholas Falk; "Legal Services for All" – Society of Labour Lawyers; "Industrial Common Ownership" – David Watkins; "Socialising the Company" – David R. Allan; "Improving the Dental Health Service" – A study group; "Gypsies: Where now?" – Martin Smith; "Making Devolution Work" – David Heald; "World Poverty: The Growing Conflict" – Melvyn Westlake; "A Wider Europe" – Geoff Harris; "The Lucas Aerospace Worker's Campaign" – David Elliott; "Education through Life" – Tom Schuller; "A Regional Policy for Europe" – Mark Swift; "National Parks" – Chris Smith; "Computers and Society" – Crowe and Jones; "What Future in NATO?" – Robin Cook, Dan Smith; "The Making of Labour's Foreign Policy" – Rod Fielding; "An End to Homeworking?" – Brian Bolton; "See Use Planning" – Elizabeth Young, Peter Fricke; "Opportunities for British Foreign Policy" – Jim Callaghan; "Funds for Investment" – John Hughes; "World Food: A Political Task" – Howard Wagstaff; "Building Societies?" – Rupert Greer; "Crisis in Ireland" – David Bleakley; "The Lesson of Chile" – Lawrence Whitehead. ("Fabian Society," an official pamphlet, the Fabian Society, London, no date. Reprinted with permission.)

England Turned into a Welfare State

Utilizing the strategy just discussed the Fabian, or democratic, socialists have turned England into a welfare state in which over fifty-five million people now have had the opportunity to taste of the fruits of socialism. Democratic socialism has become the predominant philosophy not only in England but also in all of Western Europe.

Democratic Socialism's Greatest Power Lies in Europe

As noted in a proclamation adopted at the Congress of the Socialist International in Oslo in 1962, "It was in Europe that the social struggle first took on an organised form, in the creation of Socialist and Labour Parties. It is in

Europe that democratic Socialists have marked their first achievements and where their greatest power resides...." (Norman Thomas, *Socialism Re-examined*, New York: W.W. Norton & Co., 1963, p. 225.)

English Government Dominated by Democratic Socialism

In England the democratic socialists have amassed tremendous power. Following is a list of the former Cabinet of Prime Minister James Callaghan, a leading Fabian: Prime Minister: The Rt. Hon. James Callaghan, MP; Lord President of the Council: The Rt Hon. Michael Foot, MP; Lord Chancellor: The Rt. Hon. Lord Elwyn-Jones, CH; Chancellor of the Exchequer: The Rt. Hon. Denis Healey, MBE, MP; Sec. of State for the Home Dept: The Rt. Hon. Merlyn Rees, MP; Sec. of State for Foreign and Commonwealth Affairs: The Rt. Hon. David Owen, MP; Sec. of State for Education and Science and Paymaster General: The Rt. Hon. Shirley Williams, MP (Ex-General Secretary); Sec. of State for Energy: The Rt. Hon. Anthony Wedgwood Benn, MP; Sec. of State for Industry: The Rt. Hon. Eric Varley, MP; Sec. of State for Environment: The Rt. Hon. Peter Shore, MP (Ex-Chairman); Sec. of State for Northern Ireland: The Rt. Hon. Roy Mason, MP; Sec. of State for Scotland: The Rt. Hon. Bruce Millian, MP; Sec. of State for Wales: The Rt. Hon. John Morris, QC, MP; Sec. of State for Defence: The Rt. Hon. Fred Mulley, MP; Sec. of State for Employment: The Rt. Hon. Albert Booth, MP; Sec. of State for Social Services: The Rt. Hon. David Ennals, MP; Sec. of State for Trade: The Rt. Hon. Edmund Dell, MP; Lord Privy Seal: The Rt. Hon. Lord Peart; Chief Secretary, Treasury: The Rt. Hon. Joel Barnett, MP; Minister of Agriculture, Fisheries, Food: The Rt. Hon. John Silkin, MP; Sec. of State for Prices and Consumer Protection: The Rt. Hon. Roy Hattersley, MP; Sec. of State for Transport: The Rt. Hon. William Rodgers, MP (Ex-General Secretary); Minister for Social Security: The Rt. Hon. Stanley Orme, MP; Chancellor of the Duchy of Lancaster: The Rt. Hon. Harold Lever, MP. (From a list provided by the Fabian Society, London, 1979.)

According to Dianne Hayter, General Secretary of the Fabian Society, every member of the former Cabinet listed above is a member of the Fabian Society. Peter Shore is an ex-chairman of the Society and Shirley Williams and William Rodgers are both ex-General Secretaries. This illustrates the great political and economic power which the democratic socialists have accumulated.

3. Contemporary Reactions to Democratic Socialism

Disillusionment in England

Even though the Fabians have been in charge of the government for years, it appears that the English tired of the principles of democratic socialism as evidenced, for example, in Margaret Thatcher' success in replacing James Callaghan as Prime Minister at 10 Downing Street.

Not only are the people disillusioned with democratic socialism in England, but also in other countries, as evidenced by a new conservative swing of electorates.

Margaret Thatcher and the Socialists

Concerning England's turn to the right, syndicated columnists Michael Novak noted the following in an article entitled "Britain's Maggie and the Socialists."

"'Maggie' Thatcher has accomplished something important for all of us. Social democrats have done much for Western Europe since 1945. But Mrs. Thatcher points out serious weaknesses and calls for a new ideology. Call it 'neo-liberalism.' It is liberalism because it limits the power of the state. It is 'neo' because it is not purely individualistic. It accepts social welfare, but limits it.

Thatcher Gains Largest Majority in Congress Since 1966

"A Woman with a passion may sound like a 'schoolmistress' to men. She won anyway, gaining the largest majority in Parliament since 1966, even with the feminists against her (in Britain, they place socialism before sex). It was a great and sweet victory. One especially liked her answer to the question, Would the British respect a woman in command? She recalled the reign of Queen Elizabeth I. Maggie the lion-hearted.

The Record Shows That Socialism Abridges Liberty, Kills Incentive and Precipitates Economic Decline

"Her election is important because the idea of socialism is at the crossroads. Socialism is no longer an idea in books. It has been tried. The record shows that it abridges liberties, kills incentive, depletes the spirit, precipitates economic decline, becomes involved in systematic lies.

Socialism in the U.S. Advances Itself by Untruth in Advertising

"In the United States, socialism advances itself by untruth in advertising: Tom Hayden and Jane Fonda call it 'economic democracy.'

What Went Wrong with Socialism?

"In 1972, a conference of socialists was held in Great Britain upon the theme, what went wrong in Socialism? Why hasn't it worked out as we had dreamed? Is the fault only in our practice, or in our fundamental ideas? The proceedings have been published in an important book edited by Kolakowski and British philosopher Stuart Hampshire, 'The Idea of Socialism' (Basic Books, 1974.)¹ The conclusion is that the socialist economic and political program lies in tatters.

"(1) The idea of an international proletariat is dead. So is the idea of an international foreign policy, based upon international solidarity.

"(2) The idea of the proletariat in democratic capitalist countries is also dead, for democratic capitalism, it turns out, has an unsuspected egalitarian dynamic: It lifts the workers into the middle class. (In the United States, 97.8 percent of all households have incomes between \$4,000 and \$50,000.) Socialism has been obliged to seek a 'new proletariat' in the universities and among intellectuals;

"(3) The nationalization of industries produces few or none of its intended good effects, and many evil ones.

"(4) A strict egalitarianism of wages is no longer championed.

"(5) Workers' control of industries or shops seems to produce neither better goods nor better morale, and certainly not greater wealth.

Socialism Is functioning as One of the World's Most Powerful Religions

"So what is left? Faith in socialism is not curbed by empirical failures. For those who have no other, socialism is functioning as one of the world's most powerful religions. But its programmatic creative content is virtually nil.

Two Fundamental Mistakes in Socialist Theory

"The two fundamental mistakes in socialist theory, as Margaret Thatcher has diagnosed them, are that it tremendously increases the power of the state; and that this greater state power produces neither greater wealth nor greater liberty, but the reverse. British socialism has damaged incentives, zest, morale, and bred the feeling of oppressiveness.

Most Intellectuals Have Been Nourished by Criticism of Capitalism

"Most intellectuals have been nourished by criticism of capitalism's faults. Now the faults of socialism are also glaring. All across the world, intellectuals – like the indomitable Paul Johnson of Great Britain, one of Mrs. Thatcher's advisers, and a former socialist – are for the first time weighing socialist reality against capitalist reality, capitalist ideals against socialist ideals. Mrs. Thatcher is now at the public policy cutting edge of a whole set of new ideas. The decks are coming clear. Sail on, Britannia! Many of us are rooting for the lady at the helm." (Syndicated column, Washington Star Syndicate, May 18, 1979.)

A Turn to the Right for Socialist England

There have been numerous analyses of the policies that Margaret Thatcher followed. For example a *U.S. News and World Report* article of May 14, 1979,

entitled "A Turn to Right for 'Socialist' Britain," provided a short summary of the position in which England was heading under Thatcher:

"The country that created the first cradle-to-grave welfare state is changing its course – taking a sharp turn to the right.

"That is the underlying significance of Britain's choice on May 3 of a Conservative government under the leadership of Margaret Thatcher.

Thatcher Aims at Promoting Free Enterprise

"The first woman Prime Minister ever elected in Europe, Thatcher is bent on implementing a right-wing program to promote free enterprise and curb the role of government.

Aims of the Thatcher Government

"What she promises, in effect, is a British version of America's Proposition 13 phenomenon. Specifically, the Thatcher government aims to –

"Overhaul the welfare system and pull the state out of business as much as possible in order to curtail the government's expanding financial burden.

"Restore private initiative by reducing income taxes, which take an 83 percent bite out of personal earnings in the top bracket.

"Roll back government intervention in the economy and rely on the play of free-market forces. Control of the money supply is to be the centerpiece of the Thatcher economic policy.

"Dilute the extraordinary power of the trade unions, which many observers believe lies at the root of Britain's continuing economic decline.

Callaghan Aimed at a Further Dose of Socialism

"All of this is in dramatic contrast to the prospect of a further dose of socialism held out by the defeated Laborite Prime Minister, James Callaghan.

Confrontation Between the Free Market and the Socialist Unions

"As Conservative ministers take over the reins of power, Britons are weighing this question: How far can the new government pursue its free-enterprise course without provoking a full-blown confrontation with organized labor?

"Even before all the votes had been counted, a top labor leader, Sidney Weighell of the Railwaymen's Union, sounded a clear warning: 'We are going to

have a confrontation situation generated if they do what they say they are going to do.'

"Most of Thatcher's policies are bound to be challenged by organized labor. For example, plans to 'denationalize' a number of state-owned enterprises would aggravate the country's already serious unemployment problem. Currently 1.3 million British workers are out of jobs.

Callaghan's Labour Government Subsidized Industry

"The outgoing Labor government, in fact, protected threatened jobs by subsidizing or even buying out faltering enterprises in the shipbuilding, auto, bicycle and refrigerator industries. Conservative critics claim that the result was to undermine even further the competitiveness of the British economy and add greatly to the government's financial burden.

Thatcher Believes the Government Encourages Efficient Business Undertakings

"New and different. Thatcher believes that the state should not waste scarce resources to keep uncompetitive enterprises afloat but rather should encourage new, efficient business undertakings.

Curbing Trade-Union Power

"Even more delicate – and potentially dangerous – for the new government is its plan to curb trade-union power. Thatcher is aware of the hazards. She intends to move gingerly on this issue, although it is described by one observer as the 'most vital and pivotal problem confronting this country.'

"Sweeping new legislation to regulate labor-management relations is ruled out, at least for the foreseeable future. Instead, the government intends to seek modest legal curbs. These would bar secondary picketing on a mass scale, restrict unemployment compensation for strikers, protect workers whose jobs are threatened by closed-shop agreements and provide for government-sponsored strike balloting.

"Even these relatively mild measures are expected to face a strong challenge from organized labor.

Thatcher and Foreign Policy

"The Rhodesian question. In foreign policy, too, Thatcher already is discovering the difficulty of initiating major shifts that she advocated in the election campaign. The most noteworthy involves Rhodesia. The Conservatives, as the opposition

party, favored recognition of the multiracial government just elected there and the lifting of economic sanctions.

Carter Administration Insists on Including Nationalist Guerrillas in Rhodesian Government

"If the Thatcher government actually moves in that direction, it will risk a serious row with Washington and with Britain's Commonwealth partners. The Carter administration insists that nationalist guerrillas be included in a Rhodesian government before sanctions can be lifted. Thatcher is in no hurry to force the issue.

Conservative Government Favors European Community

"Aside from the Rhodesian situation, the new Conservative government seems to be even more in tune with the Carter administration's foreign policy than was Callaghan's Labor government. The Tories are more forthright in support of the European Community, strong defense and long-range nuclear weapons in Europe.

The Ultimate Test for Thatcher's New Government

"The ultimate test for Britain's first woman Prime Minister, however, will not center on foreign policy. It will hinge on one issue – whether she can carry through her radical free-enterprise program without precipitating the kind of confrontation that brought the last Conservative government to its knees in 1974." (*U.S. News and World Report*, 1979, p. 31.)

The removal of Margaret Thatcher, due to her position on European integration, is a testimony of the power of the internationalists and the elite financial oligarchy in England.

Ludwig von Mises on Socialism

Relatively speaking there have been few thorough studies of democratic socialism which outline its strengths or weaknesses. One of the leading opponents of socialism in its many varieties was Ludwig von Mises, a leading proponent of the Austrian School of Economics. In his weighty book, *Socialism: An Economic and Sociological Analysis*, he stated:

"The world is split today into two hostile camps, fighting each other with the utmost vehemence, Communists and anti-Communists. The magniloquent rhetoric to which these factions resort in their feud obscures the fact that they both perfectly agree in the ultimate end of their programme for mankind's social and economic organization. They both aim at the abolition of private enterprise and private ownership of the means of production and at the establishment of socialism. They want to substitute totalitarian government control for the market economy. No

longer should individuals by their buying or abstention from buying determine what is to be produced and in what quantity and quality. Henceforth the government's unique plan alone should settle all these matters. 'Paternal' care of the 'Welfare State' will reduce all people to the status of bonded workers bound to comply, without asking questions, with the orders issued by the planning authority.

No Substantial Difference between Self-Styled Progressive and Italian Fascist or German Nazis

"Neither is there any substantial difference between the intentions of the self-styled 'progressives' and those of the Italian Fascists and the German Nazis. The Fascists and the Nazis were no less eager to establish all-round regimentation of all economic activities than those governments and parties which flamboyantly advertise their anti-Fascist tenets. And Mr. Peron in Argentina tries to enforce a scheme which is a replica of the New Deal and the Fair Deal and like these will, if not stopped in time, result in full socialism.

The Great Ideological Conflict of Our Age

"The great ideological conflict of our age must not be confused with the mutual rivalries among the various totalitarian movements. The real issue is not who should run the totalitarian apparatus. The real problem is whether or no socialism should supplant the market economy....

"World conditions have changed considerably.... But all these disastrous wars and revolutions, heinous mass murders and frightful catastrophes have not affected the main issue: the desperate struggle of lovers of freedom, prosperity and civilization against the rising tide of totalitarian barbarism....

Dispute over Conception of the Socialist Idea

"It is a matter of dispute whether, prior to the middle of the nineteenth century, there existed any clear conception of the socialist idea – by which is understood the socialization of the means of production with its corollary, the centralized control of the whole of production by one social or, more accurately, state organ. The answer depends primarily upon whether we regard the demand for a centralized administration of the means of production throughout the world as an essential feature in a considered socialist plan. The older socialists looked upon the autarky of small territories as 'natural' and on any exchange of goods beyond their frontiers as at once 'artificial' and harmful. Only after the English Free-Traders had proved the advantages of an international division of labour, and popularized their views through the Cobden movement, did the socialists begin to expand the ideas of village and district Socialism into a national and, eventually, a world Socialism. Apart from this one point, however, the basic conception of Socialism had been quite clearly worked out in the course of the second quarter of the nineteenth century by those writers designated by Marxism as 'Utopian Socialists'.

Science Demonstrated the Worthlessness of Socialism during the Mid-Nineteenth Century

"Schemes for a socialist order of society were extensively discussed at that time, but the discussion did not go in their favour. The Utopians had not succeeded in planning social structures that would withstand the criticisms of economists and sociologists. It was easy to pick holes in their schemes; to prove that a society constructed on such principles must lack efficiency and vitality, and that it certainly would not come up to expectations. Thus, about the middle of the nineteenth century, it seemed that the ideal of Socialism had been disposed of. Science had demonstrated its worthlessness by means of strict logic and its supporters were unable to produce a single effective counter-argument.

Karl Marx Seeks to Devise a System to Defend Socialism against Science and Logic

"It was at this moment that Marx appeared. Adept as he was in the Hegelian dialectic – a system easy of abuse by those who seek to dominate thought by arbitrary flights of fancy and metaphysical verbosity – he was not slow in finding a way out of the dilemma in which socialists found themselves. Since Science and Logic had argued against Socialism, it was imperative to devise a system which could be relied on to defend it against such unpalatable criticism.

Marx's Line of Procedure

"This is the task which Marxism undertook to perform. It had three lines of procedure. First, it denied that Logic is universally valid for all mankind and for all ages. Thought, it stated, was determined by the class of thinkers; was in fact an 'ideological superstructure' of their class interests. The type of reasoning which had refuted the socialist idea was 'revealed' as 'bourgeois' reasoning, an apology for Capitalism. Secondly, it laid it down that the dialectical development led of necessity to Socialism; that the aim and end of all history was the socialization of the means of production by the expropriation of the expropriators – the negation of negation. Finally, it was ruled that no one should be allowed to put forward, as the Utopians had done, any definite proposals for the construction of the Socialist Promised Land. Since the coming of Socialism was inevitable, Science would best renounce all attempt to determine its nature.

Immediate Acceptance of Marxism

"At no point in history has a doctrine found such immediate and complete acceptance as that contained in these three principles of Marxism. The magnitude and persistence of its success is commonly underestimated. This is due to the habit of applying the term Marxist exclusively to formal members of the one or other of the self-styled Marxist parties, who are pledged to uphold word for word the doctrines of Marx and Engels as interpreted by their respective sects and to regard

such doctrines as the unshakable foundation and ultimate source of all that is known about Society and as constituting the highest standard in political dealings. But if we include under the term 'Marxist' all who have accepted the basic Marxian principles – that class conditions thought, that Socialism is inevitable, and that research into the being and working of the socialist community is unscientific – we shall find very few non-Marxists in Europe east of the Rhine, and even in Western Europe and the United States many more supporters than opponents of Marxism.

Many Groups Unknowingly Supporting Marxism

"Professed Christians attack the materialism of Marxists, monarchists their republicanism, nationalists their internationalism; yet they themselves, each in turn, wish to be known as Christian Socialists, State Socialists, National Socialists. They assert that their particular brand of Socialism is the only true one – that which 'shall' come, bringing with it happiness and contentment. The Socialism of others, they say, has not the genuine class-origin of their own. At the same time they scrupulously respect Marx's prohibition of any inquiry into the institutions of the socialist economy of the future, and try to interpret the working of the present economic system as a development leading to Socialism in accordance with the inexorable demand of the historical process. Of course, not Marxists alone, but most of those who emphatically declare themselves anti-Marxists, think entirely on Marxist lines and have adopted Marx's arbitrary, unconfirmed and easily refutable dogmas. If and when they come into power, they govern and work entirely in the socialist spirit.

Success of Marxism Due to Its Promise of a Paradise on Earth

"The incomparable success of Marxism is due to the prospect it offers of fulfilling those dream-aspirations and dreams of vengeance which have been so deeply embedded in the human soul from a time immemorial. It promises a Paradise on earth, a Land of Heart's Desire full of happiness and enjoyment, and – sweeter still to the losers in life's game – humiliation of all who are stronger and better than the multitude. Logic and reasoning, which might show the absurdity of such dreams of bliss and revenge, are to be thrust aside.

Marxism – a Radical Reaction against Scientific Thought

"Marxism is thus the most radical of all reactions against the reign of scientific thought over life and action, established by Rationalism. It is against Logic, against Science and against the activity of thought and inquiry, especially as applied to the institutions and workings of a socialist economy. It is characteristic that it should adopt the name 'Scientific Socialism' and thus gain the prestige acquired by Science, through the indisputable success of its rule over life and action, for use in its own battle against any scientific contribution to the construction of the socialist economy. The Bolsheviks persistently tell us that religion is opium for the people.

Marxism is indeed opium for those who might take to thinking and must therefore be weaned from it.

Examining Marxian Socialism on Scientific Lines

"In my book, I have ventured to defy the almost universally respected Marxian prohibition by examining the problems of the socialist construction of society on scientific lines, i.e. by the aid of sociological and economic theory. While gratefully recalling the men whose research has opened the way for all work, my own included, in this field, it is still a source of gratification to me to be in a position to claim to have broken the ban placed by Marxism on the scientific treatment of these problems. Since the first publication of my book, problems previously ignored have come into the foreground of scientific interest; the discussion of Socialism and Capitalism has been placed on a new footing. Those who were formerly content to make a few vague remarks about the blessings which Socialism would bring are now obliged to study the nature of the socialist society. The problems have been defined and can no longer be ignored.

"As might be expected, socialists of every sort and description, from the most radical Soviet Bolshevists to the 'Edelsozialisten' of western civilization, have attempted to refute my reasonings and conclusions. But they have not succeeded, they have not even managed to bring forward any argument that I had not already discussed and disproved....

Will Socialism or Capitalism Better Serve the Public Welfare

"...Scientific inquiry into the problems of Socialism is not enough. We must also break down the wall of prejudice which at present blocks the way to an unbiased scrutiny of these problems. Any advocate of socialistic measures it looked upon as the friend of the Good, the Noble, and the Moral, as a disinterested pioneer of necessary reforms, in short, as a man who unselfishly serves his own people and all humanity, and above all as a zealous and courageous seeker after truth. But let anyone measure Socialism by the standards of scientific reasoning, and he at once becomes a champion of the evil principle, a mercenary serving the egotistical interests of a class, a menace to the welfare of the community, an ignoramus outside the pale. For the most curious thing about this way of thinking is that it regards the question, whether Socialism or Capitalism will the better serve the public welfare, as settled in advance – to the effect, naturally, that Socialism is considered as good and Capitalism as evil – whereas in fact of course only by a scientific inquiry could the matter be decided. The results of economic investigations are met, not with arguments, but with that 'moral pathos', which we find in the invitation to the Eisenach Congress in 1872 and on which Socialists and Statists always fall back, because they can find no answer to the criticism to which science subjects their doctrines.

Need for Scientific Analysis of Capitalism and Socialism

"The older Liberalism, based on the classical political economy, maintained that the material position of the whole of the wage-earning classes could only be permanently raised by an increase of capital, and this none but capitalist society based on private ownership of the means of production can guarantee to find. Modern subjective economics has strengthened and confirmed the basis of this view by its theory of wages. Here modern Liberalism agrees entirely with the older school. Socialism, however, believes that the socialization of the means of production is a system which would bring wealth to all. These conflicting views must be examined in the light of sober science: righteous indignation and jeremiads take us nowhere.

The Role of Scientific Criticism

"It is true that Socialism is to-day an article of faith for many, perhaps for most of its adherents. But scientific criticism has no nobler task than to shatter false beliefs.

Attempts to Protect the Socialist Ideal from Scientific Criticism

"To protect the socialist ideal from the crushing effect of such criticism, attempts have recently been made to improve upon the accepted definition of the concept 'Socialism'. My own definition of Socialism, as a policy which aims at constructing a society in which the means of production are socialized, is in agreement with all that scientists have written on the subject. I submit that one must be historically blind not to see that this and nothing else is what has stood for Socialism for the past hundred years, and that it is in this sense that the great socialist movement was and is socialistic. But why quarrel over the wording of it! If anyone likes to call a social ideal which retains private ownership in the means of production socialistic, why, let him! A man may call a cat a dog and the sun the moon if it pleases him. But such a reversal of the usual terminology, which everyone understands, does no good and only creates misunderstandings. The problem which here confronts us is the socialization of ownership in the means of production, i.e. the very problem over which a worldwide and bitter struggle has been waged now for a century, the problem...of our epoch.

The Defining of Socialism

"One cannot evade this defining of Socialism by asserting that the concept Socialism includes other things besides the socialization of the means of production: by saying, for example, that we are actuated by certain special motives when we are socialists, or that there is a second aim – perhaps a purely religious concept bound up with it. Supporters of Socialism hold that the only brand worthy the name is that which desires socialization of the means of production for 'noble' motives. Others, who pass for opponents of Socialism, will have it that

nationalization of the means of production desired from 'ignoble' motives only, has to be styled Socialism also. Religious socialists say that genuine Socialism is bound up with religion; the atheistical socialist insists on abolishing God along with private property. But the problem of how a socialistic society could function is quite separate from the question of whether its adherents propose to worship God or not and whether or not they are guided by motives which Mr. X from his private point of view would call noble or ignoble. Each group of the great socialist movement claims its own as the only true brand and regards the others as heretical; and naturally tries to stress the difference between its own particular ideal and those of other parties....

Socialistic Dictatorship

"It suffices here to say that the planned economy which the advocates of dictatorship wish to set up is precisely as socialistic as the Socialism propagated by the self-styled Social Democrats.

A Capital Society – A Consumers' Democracy

"Capitalist society is the realization of what we should call economic democracy, had not the term – according I believe, to the terminology of Lord Passfield and Mrs. Webb – come into use and been applied exclusively to a system in which the workers, as producers, and not the consumers themselves, would decide what was to be produced and how. This state of affairs would be as little democratic as, say, a political constitution under which the government officials and not the whole people decided how the state was to be governed – surely the opposite of what we are accustomed to call democracy. When we call a capitalist society a consumers' democracy we mean that the power to dispose of the means of production, which belongs to the entrepreneurs and capitalists, can only be acquired by means of the consumers' ballot, held daily in the market-place. Every child who prefers one toy to another puts its voting paper in the ballot-box, which eventually decides who shall be elected captain of industry. True, there is no equality of vote in this democracy; some have plural votes. But the greater voting power which the disposal of a greater income implies can only be acquired and maintained by the test of election. That the consumption of the rich weighs more heavily in the balance than the consumption of the poor – though there is a strong tendency to overestimate considerably the amount consumed by the well-to-do classes in proportion to the consumption of the masses – is in itself an 'election result', since in a capitalist society wealth can be acquired and maintained only by a response corresponding to the consumers' requirements.

The Wealth of Successful Businessmen – The Result of a Consumers' Plebiscite

"Thus the wealth of successful businessmen is always the result of a consumers' plebiscite, and, once acquired, this wealth can be retained only if it is employed in

the way regarded by consumers as most beneficial to them. The average man is both better informed and less corruptible in the decisions he makes as a consumer than as a voter at political elections. There are said to be voters who, faced with a decision between Free Trade and Protection, the Gold Standard and Inflation, are unable to keep in view all that their decision implies. The buyer who has to choose between different sorts of beer or makes of chocolate has certainly an easier job of it.

Socialist Movement Takes Great Pains to Frequently Circulate New Labels

"The socialist movement takes great pains to circulate frequently new labels for its ideally constructed state. Each worn-out label is replaced by another which raises hopes of an ultimate solution of the insoluble basic problem of Socialism – until it becomes obvious that nothing has been changed but the name. The most recent slogan is 'State Capitalism'. It is not commonly realized that this covers nothing more than what used to be called Planned Economy and State Socialism, and that State Capitalism, Planned Economy, and State Socialism diverge only in non-essentials from the 'classic' ideal of egalitarian Socialism.

To the Masses the Catchwords of Socialism Sound Enticing

"It is often said that all scientific inquiry concerning Socialism is useless, because none but the comparatively small number of people who are able to follow scientific trains of thought can understand it. For the masses, it is said, they will always remain incomprehensible. To the masses the catchwords of Socialism sound enticing and the people impetuously desire Socialism because in their infatuation they expect it to bring full salvation and satisfy their longing for revenge. And so they will continue to work for Socialism, helping thereby to bring about the inevitable decline of the civilization which the nations of the West have taken thousands of years to build up. And so we must inevitably drift on to chaos and misery, the darkness of barbarism and annihilation.

Convert the Educated – the Intellectual – and the Game is Won

"I do not share this gloomy view. It may happen thus, but it need not happen thus. It is true that the majority of mankind are not able to follow difficult trains of thought, and that no schooling will help those who can hardly grasp the most simple proposition to understand complicated ones. But just because they cannot think for themselves the masses follow the lead of the people we call educated. Once convince these, and the game is won....

Difficulty in Convincing Supporters of the Socialistic Idea by Logic

"...I know only too well how hopeless it seems to convince impassioned supporters of the Socialistic Idea by logical demonstration that their views are preposterous and absurd. I know too well that they do not want to hear, to see, or

above all to think, and that they are open to no argument. But new generations grow up with clear eyes and open minds. And they will approach things from a disinterested, unprejudiced standpoint, they will weigh and examine, will think and act with forethought....

We Stand on the Brink of a Precipice Which Threatens to Engulf Our Civilization

"Several generations of economic policy which was nearly liberal have enormously increased the wealth of the world. Capitalism has raised the standard of life among the masses to a level which our ancestors could not have imagined. Interventionism and efforts to introduce Socialism have been working now for some decades to shatter the foundations of the world economic system. We stand on the brink of a precipice which threatens to engulf our civilization. Whether civilized humanity will perish for ever or whether the catastrophe will be averted at the eleventh hour and the only possible way of salvation retraced – by which we mean the rebuilding of a society based on the unreserved recognition of private property in the means of production – is a question which concerns the generation destined to act in the coming decades, for it is the ideas behind their actions that will decide it." (Ludwig von Mises, *Socialism: An Economic and Sociological Analysis*, translated from the German by J. Kahane, London: Jonathan Cape, 1951, pp. 13-14, 15-18, 19-20, 21-22, 23.)

The Socialist Tragedy

Ivor Thomas, a former member of Parliament from England, and another critic of democratic socialism, dedicated his book *The Socialist Tragedy* "to all Social Democrats in the hope that when confronted with the choice between socialism and democracy they will choose democracy." (*The Socialist Tragedy*, New York: The Macmillan Co., 1951, p. 5.)

Socialism – An Illusion

In the beginning of his book Thomas states:

"Alas! we have now seen enough of socialism in practice to know that the picture is an illusion. The socialist age, if it comes about, will not bring an end of oppression of man by man, of class by class, and of nation by nation, but will substitute new oppressors for old, man for man, class for class, nation for nation. The socialist age, if it comes about, will not place greater economic resources in the hands of man, but will reduce the wealth of nations well below its present level, and perhaps take us back to the material poverty of the middle ages. The socialist age, if it comes about, will not be an age of superior morality, but will lead to a general lowering of ethical standards. The socialist age, if it comes about, will not free the energies of man from physical work, but will compel him to work harder for a lower standard of living; and instead of being liberated for the pursuit of the

arts and sciences he will find his life planned, ordered, regulated and controlled to an extent which will kill any flowering of the spirit. What was thought to be a vision turns out to be a nightmare." (*Ibid.*, pp. 11-12.)

The Characteristics of a World Socialist State

According to Thomas a fully socialist state would possess these characteristics:

"There would be no private ownership, but only public ownership and control, which in practice usually means state ownership and always means state control, of the land with its ores and minerals, the mines and quarries, the farms, works, mills and factories with their equipment, the transport systems, and the banks.

"No individual income would be derived from rent, interest or profit, but the only source of individual income would be wages and salaries, possibly professional fees, and state payments (pensions and allowances).

"All the economic activities of the country would be consciously planned by a central planning authority." (*Ibid.*, pp. 29-30.)

The "Vital Center" between Capitalism and Communism

Although the main distinction between socialism and communism is one of tactics, democratic socialists are hopeful of constructing an ideal society based on principles lying somewhere between those of the two extremes of communism and capitalism, a pivotal center which the Congress of the Socialist International calls "the soulless tyranny of communism and the wasteful injustice of Capitalism." (Norman Thomas, *Socialism Re-examined*, New York: W.W. Norton and Co., Inc., 1963, p. 236.)

Principles of Democratic Socialism Dominating the U.S. Since 1933

This "pivotal center" is what Arthur M. Schlesinger terms the "vital center." In the Foreword to his book *The Vital Center: The Politics of Freedom* Schlesinger notes: "...I heard Franklin Roosevelt's first inaugural address as a boy at school, fifteen years old. Since that March day in 1933, one has been able to feel that liberal ideas had access to power in the United States, that liberal purposes, in general, were dominating our national policy. For one's own generation, then, American liberalism has had a positive and confident ring. It has stood for responsibility and for achievement, not for frustration and sentimentalism; it has been the instrument of social change, not of private neurosis. During most of my political consciousness this has been a New Deal country. I expect that it will continue to be a New Deal country." (Boston: Houghton Mifflin Co., 1962, pp. xxi-xxii.)

"Schlesinger is correct in stating that liberalism – democratic socialism – has "had access to power in the United States" and that it has been "dominating our national policy" since the days of President Roosevelt.

A Revolution in the Economic Principles of the U.S.

Schlesinger's view is supported by Seymour E. Harris, former professor of economics at Harvard University, who stated in 1953:

"In the 20 years between 1933 and 1953 the politicians, college professors, and lawyers, with a little help from business, wrought a revolution in the economic policies of the United States. They repudiated laissez-faire. They saw the simple fact that if capitalism were to survive, Government must take some responsibility for developing the Nation's resources, putting a floor under spending, achieving a more equitable distribution of income, and protecting the weak against the strong. The price of continuing the free society was to be limited intervention by Government." ("The Old Deal," *Progressive*, Dec. 1953, as quoted in the *Congressional Record*, U.S. Government Printing Office, Feb. 15, 1954, p. A1161.)

In his concluding chapter, "Freedom: A Fighting Faith," Schlesinger states:

"Democracy requires unremitting action on many fronts. It is, in other words, a process, not a conclusion. However painful the thought, it must be recognized that its commitments are unending. The belief in the millennium has dominated our social thinking too long. Our utopian prophets have always supposed that a day would come when all who had not worshiped the beast nor received his mark on their foreheads would reign for a thousand years. 'And God shall wipe away all tears from their eyes; and there shall be no more death, neither sorrow, nor crying, neither shall there be any more pain: for the former things are passed away.'

We Must Forsake the Millennial Dream

"But the Christian millennium calls for a catastrophic change in human nature. Let us not sentimentalize the millennium by believing we can attain it through scientific discovery or through the revision of our economic system. We must grow up now and forsake the millennial dream....

A Choice between Conflict and Stagnation

"...The choice we face is not between progress with conflict and progress without conflict. The choice is between conflict and stagnation. You cannot expel conflict from society any more than you can from the human mind. When you attempt it, the psychic costs in schizophrenia or torpor are the same.

The Object of the New Radicalism

"The totalitarians regard the toleration of conflict as our central weakness. So it may appear to be in an age of anxiety. But we know it to be basically our central strength. The new radicalism derives its power from an acceptance of conflict – an acceptance combined with a determination to create a social framework where conflict issues, not in excessive anxiety, but in creativity. The center is vital; the center must hold. The object of the new radicalism is to restore the center, to reunite individual and community in fruitful union. The spirit of the new radicalism is the spirit of the center – the spirit of human decency, opposing the extremes of tyranny. yet, in a more fundamental sense, does not the center itself represent one extreme? While, at the other, are grouped the forces of corruption – men transformed by pride and power into enemies of humanity.

We Must Commit Ourselves to the Principles of Democratic Socialism

"The new radicalism, drawing strength from a realistic conception of man, dedicates itself to problems as they come, attacking them in terms which best advance the humane and libertarian values, which best secure the freedom and fulfillment of the individual. It believes in attack – and out of attack will come passionate intensity.

"Can we win the fight? We must commit ourselves to it with all our vigor in all its dimensions: the struggle within the world against Communism and Fascism; the struggle within our country against oppression and stagnation; the struggle within ourselves against pride and corruption: nor can engagement in one dimension exclude responsibility for another. Economic and political action can help restore the balance between individual and community and thereby reduce one great source of anxiety. (*The Vital Center*, pp. 254, 255-256.)

The Vital Center of Democratic Socialism

The democratic socialist is a staunch defender of the "vital center." This is best evidenced perhaps by a declaration adopted at the Congress of the Socialist International in Oslo in 1962:

"...The capitalist methods of ruthless exploitation of the workers, involving the uprooting of the peasants and driving them into urban slums, are not only obnoxious, but also unnecessary. The Communist method is equally obsolete, consisting as it does of abstracting surplus value through terror and undertaking break-neck industrialization by the sacrifice of the needs of the people and more particularly at the cost of agricultural development.

"The future belongs no more to Communism than to Capitalism. Communism and Capitalism point back to an age where human beings were treated as raw

materials and not as the source and objective of all efforts...." (Norman Thomas, *Socialism Re-examined*, p. 230.)

The Ultimate Goal of Democratic Socialism

The ultimate goal of democratic socialism is a global community in which the communist and the capitalist come together at the "vital center," and which requires international cooperation. According to the Oslo declaration:

"The ultimate objective of the parties of the Socialist International is nothing less than world government. As a first step towards it, they seek to strengthen the United Nations so that it may become more and more effective as an instrument for maintaining peace. Nations should settle their disputes peacefully, without resort to force. The Charter of the United Nations and the decisions based on it should be respected by all. Its constitution and structure must reflect the increasingly important role which the new countries play on the world scene. Membership of the United Nations must be made universal, so that all nations, including China, may be represented by their governments in power.

"We deny that the world is forever destined to be polarized into blocs. Our constant endeavour is to put an end to the cold war. East-West rivalry has largely been imposed upon an unwilling world by the Communist leaders. In Asia tensions have been aggravated by Chinese actions in North India and elsewhere, but also by some aspects of American policy. This rivalry is dangerous. It diverts energies from constructive tasks. To democratic Socialists co-existence is not enough. International cooperation is the need of our time.

"The Socialist International stands for complete disarmament both in nuclear and conventional weapons, including all countries and subject to truly effective controls. We shall never give up the patient search for practical solutions to outstanding disputes between nations." (*Ibid.*, p. 234.)

Part IX Regional Trade Agreements

31. European Community – Towards a Socialist Super-State for Europe

Students of history had better begin dusting off their European history books inasmuch as recent developments in Europe indicate that the ancient Roman Empire is about to be resurrected by a small group of individuals in Brussels known as the "Eurocrats."

Officially termed the "European Community," Europe's latest attempt to create a regional government over the continent is more widely known as the "Common Market." The first major objective of the European leaders, whose headquarters are in Brussels, is to integrate the economies of the nations of Europe. The second major objective is political. As noted by Jean Monnet, one of the founding fathers of the "European idea," "...Progress in economic integration will be paralleled by gradual progress toward political integration." (Thomas B. Morgan, "What Is the Common Market? *Look Magazine*, July 17, 1962, p. 42.) At some later stage, then, the countries of Europe will be joined in a political apparatus that may rival even ancient Rome.

The World's Largest Trading Unit

Already the European Community is making its influence felt. With its combined population of over 300 million, it well exceeds the population of the United States, which is approximately 258 million. At present the European Community is made up of the following countries: Belgium, France, Germany, Italy, Luxembourg, the Netherlands, Denmark, Ireland, the United Kingdom, Spain, Portugal and Greece and accounts for over 40% of world trade.

According to the European Communities Information Service:

"The Community is the world's largest producer of cars and a leading producer of farm goods. It is the world's largest trader and the major buyer of imports from developing countries. It is one of the world's most generous donors of foreign aid.

"More than 90 countries have accredited diplomatic representatives to the Community. It has negotiated trade or association agreements with more than 50 countries in Europe and elsewhere.

"The Community is not a 'superpower,' but its economic strength gives it a voice in world affairs." ("European Community – The Facts," European community Information Service, Washington, D.C., Feb. 1974, p. 1.)

A European Superstate

The end result of the European integration process, if it continues, will be a "European Superstate." Everything is not going exactly as originally planned, however. From the beginning of its inception in the 1940s by Dr. Joseph Retinger, Paul-Henry Spaak, Paul Van Zeeland, Chancellor Adenauer of West Germany, Premier De Gasperi of Italy, Jean Monnet, Robert Shuman, and others, various roadblocks have diverted the European Community from achieving its desired goals of total political and economic union.

Two Main Schools of Thought Concerning European Unity

The first obstacle was how to proceed in constructing a United States of Europe. During the past there have been two main schools of thought regarding the goals of political and economic union.

A Socialist Union of Nations

The first school, initially led by Paul-Henry Spaak, the prominent Belgium socialist, has been working toward a tightly federated Europe with a strong central government in Brussels. This group is seeking to have the European nations transfer total sovereignty to Brussels, which would of course create supra-national rule. They have been concentrating on strengthening and modifying the present European institutions that govern the European Community from Brussels. In recent years this group, known as the "European Socialists," have gained the upper hand in governance of the Community.

A Loose Union of European States

The second school, which envisioned a "Europe de patries," a Europe of the Fatherlands, was led by French President Charles de Gaulle. Under the plan put forth by de Gaulle and others, the national governments of Europe would maintain their individual sovereignty while coordinating various policies. Regular consultations would take place among the member nations, and common policies would be determined by unanimous consent with each nation-state retaining veto power. This practice was to prevent a nation from being forced into a particular action or a particular policy program. The end result of the de Gaulle plan was to be a loosely structured union of the European states, something to which the European socialists have been totally opposed.

European Socialists Gaining the Upper Hand

The two groups have been on a collision course since the 1950s. Each group has been working to formulate and construct its particular version of what a united Europe should be. Since the death of de Gaulle the European socialists have been gaining steady momentum until today they have the upper hand. Roy Jenkins of

the United Kingdom, who is a member of the Fabian Society in London, is a former head of the European Community.

President Carter Visits the EC Commission Headquarters

Each year the governmental institutions in Brussels that were created by the Rome Treaty of 1957 have been assuming more power and responsibility. This steady increase has been accompanied by a steady growth of their prestige throughout the world. In 1976 just after the inauguration of President Carter, Vice President Mondale visited Brussels, and in January of 1978 President Carter became the first U.S. President to visit the European Community Commission headquarters in Brussels. This visit by the President not only gave the Europeans a great moral boost, it also in effect was Washington's way of "officially" announcing that the United States was recognizing the European Community as the "unofficial" government of Europe. The plans of the European Socialists indicate that eventually complete sovereignty will be transferred to Brussels by the individual European nation-states and the EC will become the official government for Europe.

U.S. Support for European Unity

U.S. support for European unity began just as World War II was drawing to a close. In fact, without the Marshall Plan the European integration process would not be in the advanced state it enjoys today. In his "new Atlantic Charter" speech of April 23, 1973, Henry A. Kissinger, then U.S. Secretary of State, voiced Washington's longtime support of European unity:

"The alliance between the United States and Europe has been the cornerstone of all [American] postwar foreign policy, provided the political framework for American engagements in Europe, and marked the definitive end of U.S. isolationism.... It was the stimulus for an unprecedented endeavor in European unity and the principal means to forge the common policies that safeguarded Western security in an era of prolonged tension and confrontation. Our values, our goals, and our basic interests are most closely identified with those of Europe." (Address to the Associated Press, N.Y., April 23, 1973, as quoted in "The United States and The European Community: Their Common Interests," European Community Information Service, Washington, D.C., 1976, p. 24.)

Candidate Carter Voices Support for a Europe with One Voice

Just prior to his election, Jimmy Carter made the following statement concerning U.S.-Europe relations which has since become official policy:

"The United States-European relations is at the heart of U.S. foreign policy. In economic policy, their cooperation with each other and with Japan is necessary

both to their prosperity and to the progress of developing countries; growing European unity can help to fulfill this promise....

"Europe will be better able to fulfill its role in U.S.-European-Japanese cooperation in the degree that it can speak with one voice and act with one will. The United States has sometimes seemed to encourage European unification with words, while preferring to deal with national governments in practice. I believe that we should deal with Brussels on economic issues to the extent that the Europeans themselves make Brussels the focus of their decisions." (The United States and Europe: The Future President's Views," *European Community*, October 1976, p. 17.)

Final Form of Europe's Superstate Not Yet Complete

At this point in time one can only conjecture what the final form of "Europe's Superstate" will be. One thing is certain, however: the EC is an evolving structure that has not yet been fully realized. Roy Jenkins, former president of the European Commission, stated: "It is clear that, although the European Community in its various aspects has economic, political, and judicial reality, it is very far from complete." ("The United States and a *Uniting Europe*," *European Community*, Jan.-Feb. 1977, p. 20.)

Basically, only the foundation and scaffolding have been assembled. As pointed out by Jean Monnet in his memoirs:

"The roots of the Community are strong now, and deep in the soil of Europe. They have survived some hard seasons, and can survive more. On the surface, appearances change. In a quarter-century, naturally, new generations arise, with new ambitions; images of the past disappear; the balance of the world is altered. Yet amid this changing scenery the European idea goes on; and no one seeing it, and seeing how stable the Community institutions are, can doubt that this is a deep and powerful movement on an historic scale. Can it really be suggested that the wellsprings of that movement are exhausted, or that other rival forces are taking their place? I see no sign of any such rival forces. On the contrary, I see the same necessity acting on our countries – sometimes bringing them together for their mutual benefit, sometimes dividing them to the detriment of all. The moral is clear, and it cannot be gainsaid. It has taken root in our peoples' consciousness, but it is slow to act on their will: it has to overcome the inertia that hinders movement and the habits that resist change, we have to reckon with time.

Political Authority Over Europe Yet to Be Built

"Where this necessity will lead, and toward what kind of Europe, I cannot say. It is impossible to foresee today the decisions that could be taken in a new context tomorrow. The essential thing is to hold fast to the few fixed principles that have guided us since the beginning: gradually to create among Europeans the broadest

common interest, served by common democratic institutions to which the necessary sovereignty has been delegated. This is the dynamic that has never ceased to operate, removing prejudice, doing away with frontiers, enlarging to continental scale, within a few years, the process that took centuries to form our ancient nations. I have never doubted that one day this process will lead us to the United States of Europe; but I see no point in trying to imagine today what political form it will take. The words about which people argue – federation or confederation – are inadequate and imprecise. What we are preparing, through the work of the Community, is probably without precedent. The Community itself is founded on institutions, and they need strengthening; but the true political authority which the democracies of Europe will one day establish still has to be conceived and built.

A United States of Europe to Be Formed

"Some people refuse to undertake anything if they have no guarantee that things will work out as they planned. Such people condemn themselves to immobility. today, no one can say what form Europe will assume tomorrow, for the changes born of change are unpredictable. 'Tomorrow is another day,' my father used to say, with a zest which my mother, in her wisdom, did her best to calm. 'Sufficient unto the day is the evil thereof,' she would reply. They were both right. Day-to-day effort is needed to make one's way forward: but what matters is to have an objective clear enough always to be kept in sight. People who came to see me in Luxembourg were intrigued to see on my desk the photograph of a strange raft. It was the *Kon-Tiki*, whose adventure has thrilled the whole world, and which for me was a symbol of our own.

"'Those young men,' I explained to my visitors, 'chose their course, and then they set out. They knew that they could not turn back. Whatever the difficulties, they had only one option – to go on. We too are heading for our objective, the United States of Europe; and for us too there is no going back.'

EC – Only a Step Toward a New World Order

"But time is passing and Europe is moving only slowly on the course to which she is so deeply committed.... We cannot stop, when the whole world around us is on the move. Have I said clearly enough that the Community we have created is not an end in itself? It is a process of change, continuing that same process which in an earlier period of history produced our national forms of life. Like our provinces in the past, our nations today must learn to live together under common rules and institutions freely arrived at. The sovereign nations of the past can no longer solve the problems of the present: they cannot ensure their own progress or control their own future. And the Community itself is only a stage on the way to the organized world of tomorrow." (*Memoirs*, New York: Doubleday and Company, Inc., 1978, pp. 523-524.)

The Formidable Powers of the European Court

One example illustrating that the Community is far from complete is the European Court. Concerning its potential expansion of power, former President Jenkins stated:

"Regarding the European Court, there are remarkable possibilities for growth. Its powers are formidable because it is in effect, although international, a judicial organ of each member state, and its decisions are directly enforceable. The implications go very far for those used to the doctrine of absolute parliamentary sovereignty – particularly so in Britain. To take one example, an individual could invoke [his] decisions on equal pay for equal work if he found that British legislation on these points did not go as far as that of the Treaty of Rome."

European Court to Play a Formative Part in the History of Europe

"I think that even Americans, used to their own Supreme Court, would be startled by the potential powers of the European Court. The best American analogy would be to have the Equal Rights Amendment automatically becoming part of the law of the United States by virtue of a judgment of the International Court of Justice at The Hague. In due course, the European Court may play as formative a part in the history of Europe as Marshall's Supreme Court played in the early-middle history of the United States." ("The United States and a *Uniting* Europe," *European Community*, Jan.-Feb. 1977, p. 20.)

Governmental Institutions of the EC

The European Community is governed by a set of institutions located in Brussels, Strasbourg and Luxembourg, which were outlined and provided for in the Treaty of Rome in 1957. An official EC booklet explains the institutions as follows:

"The Community has four institutions each of which has its own civil service.

"The Commission is responsible for proposing Community policies. Its 13 members – 2 each from France, Germany, Italy and the United Kingdom, and 1 each from the other Member States – act independently of the nine national governments in the Community interest. It is answerable to the European parliament, and to the Parliament alone.

"The Council of Ministers decides major Community policy which the Commission then implements. It has one representative from each Member State and the Ministers who attend its meetings vary depending on the subject under discussion, i.e. Agriculture Ministers deal with agriculture, Transport Ministers with transport and so on. The Council of Ministers of Foreign Affairs, apart from dealing with foreign policy and general Community affairs, acts as a coordinator.

"The European Parliament is consulted by both the Commission and the Council of ministers on all important matters. It can dismiss the Commission and it has considerable budgetary powers. The Parliament's 198 members are at present nominated by the nine national parliaments but soon it will have 410 members who will be returned in the Community's first direct elections.

"The Court of Justice has nine judges, one from each Member State, who ensure that policy proposals and policy implementation are in line with Community law. This derives from the Paris and Rome Treaties out of which the Community grew, and also from judgments of the Court itself. In fulfilling this function it has made a major contribution to Community integration. It is superior to national courts in matters of Community law.

"Both the Commission and the council can issue:

"Regulations which automatically become Community law;

"Directives which are binding on Member States as to the ends but not the means;

"Decisions which are binding on those to whom they are addressed (Member States, enterprises or individuals);

"Recommendations and Opinions which are not binding.

Decision-Making Powers of the Commission

"The Commission's role is to see that provisions of the Treaties are carried out by making policy proposals to the Council of Ministers. It acts as a mediator between the governments on Community matters, working independently of them to guide them towards agreement in the common interest. The Commission has extensive decision-making powers of its own. In exercising these it acts partly as a legislator and partly as an executive. Finally, it acts as watchdog to ensure that Community rules are correctly implemented and observed.

"Before it submits a proposal to the Council the Commission may consult national experts and interest groups. Many interest groups such as industry, trade unions, farmers and consumers are organized at Community level and have offices in Brussels to represent their interests.

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The Community's Principal Decision-Making Body

"The Council of Ministers is the Community's principal decision-making body. Except in a very few cases it acts on the basis of a proposal from the Commission, which ensures the latter an important policy-making role. When it receives a proposal it usually sends it to the European Parliament for an opinion. It can also send it to the Economic and Social Committee (ESC) representing special interest groups. On many matters, such consultation is obligatory.

"The Commission takes part in all Council meetings and defends its proposals. As an independent body acting strictly in the Community interest it plays an important role along with the Council president as mediator in the proceedings.

"Council decisions can be taken by qualified majority in a large number of cases. Votes are weighted in such a way that the interest of the smaller Member States are protected. France, Germany, Italy and the United Kingdom each have 10 votes, Belgium and the Netherlands 5, Denmark and Ireland 3 and Luxembourg 2. Of the 58 votes, 41 are required for a majority. In practice, majority voting is the exception and unanimity tends to be the rule, particularly on important political issues. However, greater efforts have been made recently to make more use of majority voting and the Council has shown itself to be aware of the dangers to the effectiveness of the decision-making process through over-insistence on the unanimity principle. Certainly, in a Community of Twelve this will need to be reviewed.

The European Council

"The nine Heads of State or Government have, since 1975, met three times a year in the European Council which replaced the occasional summits.

The European Parliament

"The European Parliament will be directly elected for the first time in June, 1979. Its membership will increase from 198 seats to 410.

"Members of the new Parliament will be elected for five years and may also hold a seat in their own national parliaments. However, because of the work-load and travelling involved, this so-called 'dual mandate' may be difficult to operate.

European Political Parties

"As in the existing Parliament, members will sit in the chamber not according to nationality but according to political persuasion. At present, there are six groups – Socialists, Christian-Democratic, Liberal and Democratic, European Conservatives, European Progressive Democrats and Communists and Allies. For the first direct elections, European political parties are planning to campaign on common platforms. So far three groups have been formed – the Confederation of Socialist Parties of the European community, the Christian-Democratic Group (Group of the European People's Party), and the Federation of Liberal and Democratic Parties of the Community. Between them they represent about three-quarters of the membership of the present Parliament.

"The Parliament meets once a month in public in Luxembourg or Strasbourg. It also has 12 standing committees which meet in private and draw up reports for the plenary sessions on Commission proposals submitted to the Parliament.

Limited Legislature Powers for Parliament

"Since most important Community law is made by the Council of Ministers on the basis of Commission proposals, the Parliament does not have legislative powers in the same way as national parliaments. Nevertheless, except in cases involving day-to-day management, such as agriculture, very few texts can be adopted without the Parliament's opinion first having been sought. This will carry more authority once the Parliament is directly elected.

Budget Responsibilities

"The Parliament has the right to make alterations to certain aspects of the Community's budget. It also adopts the budget and gives the discharge to the Commission for its implementation. Through what is known as the concertation procedure, it takes an active part with the Council and Commission in the adoption of general Community legislation which has appreciable financial implications. The Parliament may also put written and oral questions to the Commission and Council.

"The Commission is responsible to the Parliament and if the latter is dissatisfied with its conduct of business it can dismiss it. In such a case, the motion of censure must be carried by two-thirds of the votes cast which represent a majority of the Parliament's members. In the past 20 years, a number of censure motions have been proposed, most of them quite recently. While such a motion has not yet been passed it is, nevertheless, a weapon which the Parliament can use at any time.

The Court of Justice

"The Court is the final arbiter of Community law. It deals with disputes between Member States, between Member States and Community institutions, between Community institutions themselves, between the institutions and enterprises and individuals, or between the institutions and their officials, either individually or collectively. Finally, national courts faced with a question of Community law can ask the Court of Justice for a preliminary ruling. Such a request is obligatory where the national court is the final court of appeal in its particular Member State.

"The Court also has an advisory function. It may be asked to deliver opinions on external agreements which the Community plans to conclude with States or international organizations. These opinions are binding.

"The Economic and Social Committee mentioned earlier is a consultative body of 144 members representing employers and unions, as well as special interest groups such as consumers and farmers. It assists the Commission and Council on EEC and Euratom matters. For ECSC matters the Commission is assisted by a Consultative Committee composed of representatives of producers, workers, consumers and dealers in the coal and steel sector. Both of these committees enable a broad spectrum of interested parties to be actively associated with the development of the Community." ("The European Community Today and Tomorrow," Office for Official Publications of the European Communities, Luxembourg, Feb. 1978, pp. 12-15.)

The World's First International General Election

Three recent developments in Europe are greatly accelerating the European integration process. These developments are (1) direct elections for parliament, (2) further enlargement of the Community, and (3) a new European Monetary System.

1. Direct Elections for Parliament

Concerning plans for the European Parliament, an EC pamphlet states:

"In June 1979 the world's first international general election is to be held here in the European Community. It is hoped that as many as possible of those entitled to vote – about 180 million out of the Community's total population of 260 million people – will go to the polls over the four days 7th to 10th June to vote for the candidate they want to represent them in the new European Parliament.

"A great many candidates are likely to stand for election and the 410 seats in the new parliament will be keenly contested. It is expected that the 410 winning candidates will begin to be announced on Sunday, 10th June; those elected will then take their seats in the European Parliament for a five-year term.

"Of the 410 elected Members, 81 will be from the United Kingdom and 15 from Ireland. There will be 81 from France, 81 from Germany, 81 from Italy, 25 from the Netherlands, 24 from Belgium, 16 from Denmark and 6 from Luxembourg.

"The elected Members will not sit in the European Parliament as national delegations but in international political groups, of which there are six at present: Socialist, Christian Democrats, Liberals, European Progressive Democrats, European Conservatives and Communists.

"Their job will be to examine and either pass or reject the Community's budget; to advise the Community's decision-making Council as to the public acceptability of Brussels Commission proposals for Community-wide laws; to question, and where necessary to criticize, Commission and Council on all they are doing – or not doing – to promote the Community's interest; and to ensure that the European public at large is fully represented in the new Community Europe." ("A Parliament for Europe," Secretariat of the European Parliament, Directorate-General for Information and Public Relations, Luxembourg, June 1978, back cover.)

Political Groupings in Europe

The European Parliament is dominated and controlled by the socialist parties of Europe. In 1977 the 198 seats in Parliament were distributed as follows between seven political groups: Christian Group – 64, Christian-Democratic Group – 53, Liberal and Democratic Group – 24, Group of European Progressive Democrats – 19, European Conservatives Group – 18, Communist and Allies Group – 17, Non-affiliated – 3. (*Eleventh General Report on the Activities of the European Communities in 1977*, Brussels and Luxembourg, Feb. 1978, p. 25.)

It is fair to assume that in future elections Socialist and Christian-Democratic Groups will retain their influential positions in directing Parliament.

New Parliament Not to Assume More Powers for the Present

Many people have asked if the direct elections means that additional power will be given to the new Parliament. According to Roy Jenkins, that body will not be assuming any new powers, at least for the present. In 1977 he stated:

"...The European Parliament, through no fault of its own, has not yet succeeded in achieving adequate power of democratic control. I believe that the recent agreement on direct elections by universal suffrage will eventually give the Parliament a new and different role, although direct elections will not mean any formal increase in powers." ("The United States and a *Uniting Europe*," *European Community*, Jan.-Feb., p. 19.)

2. Enlargement of the European Economic Community

The second great development in Europe is its expansion into the Mediterranean area. Concerning the enlargement of the Community from nine to twelve members, Loukas Tsoukalis, a Research Fellow in European Studies at St. Catherine's College, Oxford, has stated:

"Before the Community had time to digest the effects of the first round of enlargement in 1973, when Britain, Ireland and Denmark became full members, it was faced with applications from three Mediterranean countries – Greece, Spain and Portugal....

"...Although the Community is basically an economic organization, the applicant's motivations seem to be predominantly political. All three have recently emerged from dictatorial regimes and feel a strong need for international recognition. Membership of the Community is seen as enabling them to play an active role in European and international politics after long years of isolation, as in the case of Spain and Portugal, or after the frustration of being an object rather than a subject of international diplomacy, as in the case of Greece. Membership is also considered a guarantee for the preservation of the new democratic institutions." ("A Community of Twelve in Search of an Identity," *International Affairs*, July 1978, Vol. 54, No. 3, pp. 437-438. The Royal Institute of International Affairs.)

3. The European Monetary System

The third major development in the EC is the evolution and creation of a European Monetary System. This system, usually referred to as the EMS, requires that each country joining the plan place 20 percent of its gold and dollar reserves in a central pool. The entire system will revolve around an artificial currency unit called the *ECU* – European Currency Unit – which will be comparable in value to the U.S. dollar. Currency settlements will then be made between the various countries in ECU's.

A Great Leap Forward in European Unity

In a speech delivered before the National Press Club in Washington, D.C., Roy Jenkins stated that the EMS "could well turn out to be the most important event in the building of Community Europe since the early days of the Treaty of Rome." He said that "some of the international responsibilities of the dollar will now be shared with European and other currencies." Jenkins also noted that "one of the external factors which weighted in the creation of the system was the decline in the dollar's value." (David Haworth, "US-EC 'Images and Realities,'" *European Community*, Jan.-Feb. 1979, p. 4.)

Details of the EMS Worked Out by West Germany and France

Finishing touches on the EMS were fully developed at a meeting between Herr Schmidt of Germany and Giscard d'Estang of France in Aachen, Germany, in September of 1978. At the Bonn Summit the American delegation was briefed by the Germans and the French. It was reported that the Americans had some reservations concerning the new plan. The EMS was set to be officially launched on January 1, 1979. However, due to last-minute French objections, the EMS is off to a slow start. It was officially launched on March 13, 1979. Concerning the American attitude, the *New York Times* stated:

"President Carter and other Western leaders wanted him (Chancellor Schmidt) to expand the German economy faster than he considered prudent, sucking in more imports, boasting world trade but risking renewed inflation. Mr. Schmidt refused to do this, offering only a modest stimulus.... Instead, he had already chosen to spend Germany's trade surplus – the fruit of its economic strength – on financing the further unification of Europe and increasing his country's diplomatic authority within Europe and abroad...." (July 30, 1978.)

European Currency Unit to Replace the Dollar as the International Medium of Exchange

The *New York Times* article continued, outlining the political and economic consequences of the proposed EMS as follows:

"The real issues at stake are as much political as economic. A disciplined European monetary bloc, underpinned by the Common Market's reserves, would provide the bases for a single European currency that could eventually take over much of the dollar's role as an international medium of exchange....

"The independent line West Germany is starting to take in foreign affairs acquires wider significance against the background of the United States' fading world hegemony and Europe's increasing prosperity. It is yet another sign that the balance of power and influence within the West is shifting." (*Ibid.*)

Germany to Control New Fund

Bruce Nussbaum reported in *Business Week* that Germany was maneuvering into a position that would enable it to control the new monetary fund.

"For Germany, setting up a currency union based around the mark is a way of protecting its export competitiveness. If the European currencies float collectively against the dollar, any decline in the dollar that pushes up the mark would also push up the franc, the guilder, and the other currencies of Germany's European trade partner. Germany would thus retain its competitiveness at least within Europe, which absorbs half its exports. More important, Germany could dictate

conservative fiscal and monetary policies to Europe by controlling the new fund." (July 31, 1978, p. 82, McGraw-Hill, Inc.)

Effect of the EMS on the Dollar

With all the European currencies floating in concert against the dollar, what effect will they have on the dollar? Nussbaum in his *Business Week* article stated:

"For the U.S., the proposed currency union can only spell more trouble for the dollar...; the fund will openly advertise that it has 18 billion marks (approximately \$9 billion) available to anyone wanting to dump dollars.... And once the ECU [European Currency Unit] becomes a reserve currency, that, too, will be bought for dollars.

"...Unless the European challenge is met by radical changes in U.S. fiscal and monetary policies, the long-term effect on the dollar will be to send it the way of the sterling." (*Ibid.*)

A Single European Currency

Officials in Brussels are confident that the EMS will eventually result in a single European currency. The *Wall Street Journal* of July 12, 1978, noted: "As early as five years from now, predict the most optimistic aides, the Common Market could be ready for work on a single European currency to replace the existing national currencies, right down to actual paper money and coins."

A European Central Bank

When it begins operating fully, the new EMS will contain over \$32 billion dollars. Undoubtedly this enormous European fund will result in the creation of a European central bank.

It is interesting to note that Europe's central banks now contain half of the world's gold reserves (18,000 metric tons). The United States central banks hold 9,000 metric tons – approximately 25 percent of the world's gold reserves. The remaining 25 percent is held by central banks in Asia.

A Super-Europe

It is obvious that a "Super-Europe" is in the advanced stages of development. From the beginning Robert Schuman, Jean Monnet and others have stated that economic integration would eventually pave the way for political integration. The stage is set. Europe is about to rise from off its knees and stand on equal footing with the United States and Japan.

The EC – A New Power Center with Worldwide Influence

Mary Kaldor, author of *The Disintegrating West*, in an article titled "Super-Europe," stated that because of social and economic tensions in the world, new power centers are arising:

"The most important of these [power centers] is the emerging European Community, albeit fragile, dominated by Western Germany, a financial giant whose monetary reserves and manufactured exports greatly exceed America's. Western Europe has all the potential of a super-power. It (EEC) is a larger trading entity than the United States, it has a faster rate of economic growth and more men under arms than the United States. The success of attempts to achieve monetary union depends on the success of related endeavors to achieve political union and military integration, for only these would provide the necessary legitimation for a European state able to uphold a stable European currency. A European state, since this is what it amounts to, would represent a powerful challenge to the United States...." (*The New York Times*, Nov. 9, 1978.)

The recent developments in Europe will have repercussions not only in Europe but also eventually throughout the world. Because the European Community will greatly affect the dollar, the impact of the Community will of course, sooner or later, be felt in the United States.

Differences Between the EC and the U.S. Government

On April 20, 1977, in an address to the Chicago Council on Foreign Relations, Roy Jenkins stated: "Americans sometimes look for a kind of United States of Europe on the analogy of the United States of America, and find to their disappointment that no such organization exists." ("Politics and Trade: The United States and the European Community," European Community Information Service, Washington, D.C. p. 2, press release.)

Inasmuch as the "Europeans" are working for a United States of Europe, it is common for Americans to think that the EC is basically similar to the U.S. However, as noted by President Jenkins, there is a great deal of disparity between the governmental, economic, and social structure of the United States of America. There are at least nine major differences.

First of all, the United States is a Constitutional Republic. The EC is at present an "embryonic Democratic Socialist state." Second, the United States is governed by a written constitution. The EC is governed by a written constitution. The EC is governed by treaties. Third, the United States maintains a system of dual federalism in which individual states retain a certain degree of sovereignty and the federal government is assigned certain "limited and well-defined powers." The EC, at this point in time, seems to be seeking to have total sovereignty over the various nation-states transferred to Brussels. Fourth, the U.S. Constitution contains a

detailed Bill of Rights. The EC subscribes to the U.N. Universal Declaration of Human Rights. Fifth, the United States is based upon a system of private property. The EC believes in governmental control and ownership of property. Sixth, the United States is basically a Christian nation (44 percent of Americans attend church on Sunday). Seventh, the U.S. government is based upon a system of "separation of power." The EC has only a vague form of separation of powers. Eighth, the U.S. government operates under a system of checks and balances. The EC has very few checks and balances in its Community institutions. Ninth, the U.S. Constitution is a relatively rigid document. The Treaty of Rome, via Article 235, to which the EC adheres, allows arbitrary decisions by the Commission and Council of Ministers. Article 235 states:

"If action by the Community should prove necessary to attain, in the course of the operation of the common market, one of the objectives of the Community and this Treaty has not provided the necessary powers, the Council shall, acting unanimously on a proposal from the Commission and after consulting the Assembly, take the appropriate measures." (*Treaties Establishing the European Communities*, Office for Official Publications of the European Communities, Luxembourg, 1973, p. 335.)

Europe's Set of Concerns is Different from Those of America

It is readily apparent that there are many major differences between the nature and structure of the government in Brussels and the nature and structure of the government in Washington. George Washington summarized well the basic differences between European concerns and those of the United States:

"Europe has a set of primary interests, which to us have none, or a very remote relation. Hence she must be engaged in frequent controversies, the causes of which are essentially foreign to our concerns. Hence therefore it must be unwise to implicate ourselves, by artificial ties, in the ordinary vicissitudes of her politics, or the ordinary combinations and collision of her friendships or enmities. Our detached and distant situation invites us to pursue a different course...." (Farewell Address of Sept. 17, 1796, as quoted by Boyd France in "A Short Chronicle of United States-European Community Relations," European Community Information Service, Washington, D.C., Jan. 1973, p. 5.)

Roy Jenkins has also noted that "it is extremely easy for Americans to see an analogy between the United States of America and the uniting States of Europe. This is a temptation which should, I believe, be resisted: not because there is nothing in it, but because it can lead, like many historical and political analogies to misleading hopes and expectations." ("The United States and a *Uniting* Europe," European Community, Jan.-Feb. 1977, pp. 18-19.)

The Largest Regional Agreement in the World

One of the most amazing feats of the European Community has been its Lome Agreements. Peter Hall, editor of *Europe 2000*, pointed out the significance of the 1975 Lome Agreements when he said they were:

"...one of the most important developments in international relations of recent years albeit little recognized. They establish a new basis for relations between Europe and the developing world through the establishment of a European Development Fund, the stabilisation of export earnings to allow better sequencing of development, and industrial cooperation and technical transfers. On these points there is now, apparently, almost total unanimity between the EEC and [the 53] developing nations in Africa, the Caribbean and the Pacific. Dedicated Europeans see the Lome Agreements as the most important step taken by the EEC since its creation – far exceeding in importance anything achieved in this field by the United States, or the USSR, or the United Nations – notwithstanding the Special Drawing Rights, the World Bank, the United National Development Fund, and even UNESCO. The responsibilities of the Community are no longer restricted to Europe; the EEC is now, apparently irreversibly, a great world power." (New York: Columbia University Press, 1977, pp. 18-19.)

The Lome accords are undoubtedly some of the most significant regional agreements ever reached in the world.

Americans Possess Little Knowledge Concerning the EC

In 1973 Karl Kaiser, Director of the Research Institute of the German Society for Foreign Policy in Bonn, stated: "...The European Community does not sufficiently explain itself to the Americans. Except for a small number, the American elite – to say nothing of the general public – know almost nothing about what goes on in the Community." (*Europe and the United States – The Future of the Relationship*, Washington, D. C.: Columbia Books, Inc., 1973, p. 132. The Aspen Institute for Humanistic Studies, N.Y. and Aspen, and the International Association for Cultural Freedom, Paris.)

32. North American Free Trade Agreement – Merging the Americas

"Americans ... may be the most gullible people on earth," Professor Murray N. Rothbard stated in "The Nafta Myth." The article penetrated the haze surrounding the NAFTA Agreement and let the light of truth shine on those attempting to mislead the American people into believing that the new agreement was designed to further genuine free trade. Professor Rothbard continues:

"When Gorbachev tried to sell his timid reforms as 'market socialism' only the American establishment cheered. The Soviet public immediately spotted the phoniness and would have none of it. When the Polish Stalinist Oskar Lange

touted 'market socialism' for Poland, only American economists shouted huzzahs. The Polish public knew the score all too well.

"For some people, it seems, all you have to do to convince them of the free enterprise nature of something is to label it 'market,' and so we have the spawning of such grotesque creatures as 'market socialists' or 'market liberals.' The world 'freedom,' of course, is also a grabber, and so another way to gain adherents in an age that exalts rhetoric over substance is simply to call yourself or your proposal 'free market' or 'free trade.' Labels are often enough to nab the suckers.

Use of Double Speak

"And so, among champions of free trade, the label 'North American Free Trade Agreement' (Nafta) is supposed to command unquestioning assent. 'But how can you be against free trade?' It's very easy. The folks who have brought us Nafta and presume to call it 'free trade' are the same people who call government spending 'investment,' taxes 'contributions,' and raising taxes 'deficit reduction.' Let us not forget that the Communists, too, used to call their system 'freedom.'

NAFTA Agreement Bypasses the Treaty Provision of the Constitution

"In the first place, genuine free trade doesn't require a treaty (or its deformed cousin, a 'trade agreement'; Nafta is called an agreement so it can avoid the constitutional requirement of approval by two-thirds of the Senate). If the establishment truly wants free trade, all it has to do is to repeal our numerous tariffs, import quotas, and 'dumping' laws, and other American-imposed restrictions on trade. No foreign policy or foreign maneuvering is needed.

Internationalists Will Oppose True Free Trade

"If authentic free trade ever looms on the policy horizon, there'll be one sure way to tell. The government/media/big-business complex will oppose it tooth and nail. We'll see a string of op-eds warning us about the imminent return of the 19th century, and media pundits and academics will raise all the old canards against the free market, that it's exploitative and anarchic without government 'coordination,' etc. The establishment would react to the possibility of true free trade about as enthusiastically as it would to repealing the income tax.

"In truth the bipartisan establishment's trumpeting of 'free trade' since World War II fosters the opposite of genuine freedom of exchange. The establishment's goals and tactics have been consistently those of free trade's traditional enemy, 'mercantilism' – the system of imposed by the nation-states of 16th to 18th century Europe. President Bush's infamous trip to Japan was only one instance: trade policy as a continuing system of maneuverings to try to force other countries to purchase more American exports.

Free Trade Is Corporate Socialism at the International Level

"Whereas genuine free traders look at free markets and trade, domestic or international, from the point of view of the consumer (that is, all of us), the mercantilist, of the 16th century or today, looks at trade from the point of view of the power elite, big business in league with the government. Genuine free traders consider exports a means of paying for imports, in the same way that goods in general are produced in order to be sold to consumers. But the mercantilists want to privilege the government-business elite at the expense of all consumers, be they domestic or foreign.

"In negotiations with Japan, for example, be they conducted by Reagan or Bush or Clinton, the point is to force Japan to buy more American products, for which the American government will graciously if reluctantly permit the Japanese to sell their products to American consumers. Imports are the price government pays to get other nations to accept our exports.

Foreign Aid Is a Tool of the Elites

"Another crucial feature of post-World War II establishment trade policy in the name of 'free trade' is to push heavy subsidies of exports. A favorite method of subsidy has been the much beloved system of foreign aid, which, under the cover of 'reconstructing Europe,' 'stopping Communism,' or 'spreading democracy,' is a racket by which the American taxpayers are forced to subsidize American export firms and industries as well as foreign governments who go along with this system. Nafta represents a continuation of this system.

An Attempt to Integrate and Centralize Control Over Trade Among the Americas

"Yet Nafta is more than just a big-business trade deal. It is part of a very long campaign to integrate and cartelize government in order to entrench the interventionist mixed economy. In Europe, the campaign culminated in the Maastricht Treaty, the attempt to impose a single currency and central bank and force relatively free economies to ratchet up their regulatory and welfare states.

"In the United States, it has taken the form of transferring legislative and judicial authority away from the states and localities and to the executive branch of the federal government. Nafta negotiations have pushed the envelope by centralizing government power continent-wide, thus further diminishing the ability of taxpayers to influence the actions of their rulers.

Socialist Planning for the Americas

"Thus the siren-song of Nafta is the same seductive tune by which the socialistic Eurocrats have tried to get Europeans to surrender to the super-statism

of the European Community: wouldn't it be wonderful to have North America be one vast and might 'free trade unit' like Europe? The reality is very different: socialistic intervention and planning by super-national Nafta Commission or Brussels bureaucrats accountable to no one. And just as Brussels has forced low-tax European countries to raise their taxes to the Euro-average or to expand their welfare states in the name of 'fairness,' a 'level playing field,' and 'upward harmonization,' so too Nafta Commissions are to be empowered to 'upwardly harmonize,' to ride roughshod over labor and other laws of American state governments.

NAFTA Ensures That We Cannot Repeal Unwise Laws

"President Clinton's trade representative Mickey Kantor has crowed that, under Nafta, 'no country in the agreement can lower its environmental standards – ever.' Under Nafta, we will not be able to roll back or repeal the environmental and labor provisions of the welfare state because the treaty will have locked us in – forever.

A Horror of International Statism

"The worst aspects of Nafta are the Clintonian side agreements, which have converted an unfortunate Bush treaty into a horror of international statism. We have the side agreements to thank for hue supra-national Commissions and their coming 'upward harmonization.' The side agreements also push the foreign aid aspect of the establishment's 'free trade' hoax. They provide for the U.S. to pour an estimated \$20 billion into Mexico for an 'environmental cleanup' along the U.S.-Mexican border. In addition, the United States has informally agreed to pour billions into Mexican government coffers through the World Bank when and if Nafta is signed.

Centralization of Government Powers

"As with any policy that so heavily benefits the government and its connected interests, the establishment has gone all-out in its propaganda efforts. Allied intellectuals have even formed a Nafta network to champion the cause of government centralization. Even if Nafta were a worthy treaty, this outpouring of effort by the government and its friends should raise suspicions.

"The public is rightly suspicious that this effort is related to the vast amount of money the Mexican government is spending to lobby for Nafta. That money, so to speak, is the down payment on the \$20 billion that the Mexicans hope to mulct from the American taxpayers once Nafta passes.

An Attempt to Save Salinas

"Nafta advocates say we must sacrifice to 'save' Mexican President Carlos Salinas and his allegedly wonderful 'free-market' policies. But surely Americans

are justly tired of making eternal 'sacrifices,' of cutting their own throats, on behalf of cloudy foreign objectives which never seem to benefit them. If Nafta dies, Salinas and his party may fall. But what that means is that Mexico's vicious one-party rule by the PRI (Institutional Revolutionary Party) may at last come to an end after many corrupt decades. What's wrong with that? Why should such a fate cause our champions of 'global democracy' to tremble?

"We should look at the supposed nobility of Carlos Salinas in the same way we look at the other ersatz heroes served up to us by the establishment. How many Americans know, for example, that under Annex 602.3 of the Nafta treaty, the 'Free-market' Salinas government 'reserves to itself' all exploration and distribution of oil and natural gas? All private investment in and operation of oil and gas in Mexico, in other words, is to be prohibited. This is the government Americans have to sacrifice to preserve?

Watch Out for the Statists

"Most English and German conservatives are fully aware of the dangers of the Brussels-Maastricht Eurocracy. They understand that when the people and institutions devoted to statism suddenly come out for freedom, something is amiss. American free marketers too should understand the equivalent dangers of Nafta. (*The Free Market*, Ludwig Von Mises Institute, October 1993, Vol. 11, No. 10.)

The Origin of the NAFTA Proposal

The impetus for development of a free trade agreement in the western hemisphere came from American business leaders who wanted to open the doors to the markets in Canada and Mexico. In 1988, the U.S.-Canada Free Trade Agreement was approved by Congress. The next step in merging the economies of North America was to extend the agreement to Mexico. The long-range goal is to develop a Free Trade Zone under the management of a regional trade organization known as NAFTA which extends from Alaska to Argentina.

Sandra Masur, the Director of Public Policy Analysis for Eastman Kodak played a key role in NAFTA's passage, including a leadership role at the Business Round Table – a powerful group made up of 200 CEO's of the biggest corporations in America. In an article entitled "The North American Free Trade Agreement: Why It's in the Interest of U.S. Business," Masur wrote that securing the NAFTA Agreement "with Mexico is important to U.S. business for four reasons: (1) Mexico is a very large market that could become an even larger one. (2) American business wants to expand and lock in the reforms of the Salinas Administration so that there is less likelihood of a reversal. (3) Joint production with Mexico, already substantial, is a necessary part of a U.S. manufacturing strategy for competitiveness in global markets. (4) A comprehensive agreement with Mexico will be a model for the rest of Latin America and other regions.

NAFTA – A Model Agreement for the Americas

"The...reason American business wants a free trade agreement with Mexico is to use it as a model and the basis for future trade and investment accords with Latin America and other regions of the world. This, of course, presupposes a high degree of optimism that a comprehensive trade and investment agreement with Mexico can be reached. That is certainly the view of The Business Roundtable. The Roundtable recently released its preliminary negotiating objectives for the talks. The companies in the Roundtable are seeking across-the-board liberalization of trade in goods, services and investment.

"Rather than tackling liberalization sector by sector, piece by piece, Roundtable companies propose that all barriers to trade and investment between the two countries be eliminated, unless either country specifically stipulates otherwise. Each country can reserve, but reservations need to be limited in time and scope. Long transition periods are built into the process, but the ultimate goal is total liberalization to maximize economic efficiency.

NAFTA Is Designed to Benefit American Business

"Specifically, American business is looking for an elimination of all tariff and non-tariff barriers within a prescribed period. Business also seeks total freedom to invest in all sectors of the Mexican economy, including the energy and financial sectors, without restriction. Business wants an open services regime, with the exception of the movement of people, which both Mexico and the United States agreed was off the table. And business wants to see the changes in intellectual property protection underway in Mexico incorporated into the agreement. With respect to dispute settlement, Roundtable companies are prepared to see a dispute settlement mechanism put in place along the lines of what was agreed with Canada, but only after the Mexicans improve the transparency and efficacy of their trade laws.

"While the goal is an ambitious one, Roundtable companies believe that it is achievable with the Salinas Administration. Certainly companies view the U.S.-Canada accord as the floor, not the ceiling, for what can be accomplished with Mexico.

Designing a Model Agreement

"Not only does a comprehensive agreement make sense on a bilateral basis, but it makes sense for American businesses looking to gain greater market access elsewhere in the world, particularly Latin America. Rather than 're-invent the wheel' with separate free trade agreements with Latin American or other countries, the object is to negotiate the model agreement with Mexico and then have other countries sign on.

"This, of course, places an enormous burden on the U.S. negotiators to produce the maximum accord with Mexico. However, while this might create some difficulties for Mexico, particularly in the energy sector, it is ultimately the only kind of agreement that makes sense from an American business perspective.

Business Roundtable Will Go All Out to Support NAFTA

"With a maximum comprehensive accord in hand, business will go all out to ensure Congressional passage of the agreement. Without such an agreement, efforts to gain passage will be desultory at best. Given that opponents will no doubt make defeat of the NAFTA a top priority, the full support of the business community will be necessary." (*Columbia Journal of World Business*, Summer 1991, pp. 99, 102-103.)

The Business Roundtable Mobilizes Support for NAFTA

The Business Roundtable organization is clearly one of the most influential and powerful organizations in America. We learn from Ms. Masur that the Business Roundtable group wants to use NAFTA as 'a model and basis for future trade and investment accords with Latin America.' According to Masur, 'the object is to negotiate the model agreement with Mexico and then have other countries sign on.' Masur stated that the Business Roundtable is 'seeking across-the-board liberalization of trade in goods, services and investment.' The author then assures the reader that, 'With a maximum comprehensive accord in hand, business will go all out to ensure Congressional passage of the agreement.' (*Ibid.*)

Tremendous Resources Put Behind NAFTA

The CEO's of the largest multilateral corporations in America put their marketing, advertising, public relations and legal departments into full gear to pass the NAFTA Agreement. It was a high-powered team with enormous influence and prestige. And in the end, the combined power of the major CEO's of America overwhelmed the opposition and fulfilled Masur's prophetic statement made in 1991, that, "With a Maximum comprehensive accord in hand, business will go all out to ensure Congressional passage of the agreement."

The NAFTA Agreement was completed on August 12, 1992. When President Bush was defeated, President Clinton picked up the Wall Street banner and began the push for adoption of the implementing legislation that would initiate a binding trade agreement with Mexico and Canada. The way would then be opened for other nations to join NAFTA.

NAFTA Submitted to Congress

The Clinton Administration began intensive talks with Mexico on March 17, 1993 and the Agreement was completed on August 15, 1993. On November 3,

1993, President Clinton submitted the bill (HR3450) to implement the NAFTA Agreement to Congress.

U.S. Agrees to Open Up Its Market

On November 17, 1993 the House of Representatives "cast a vote that seemed destined to be long remembered, as much for its political impact as for its effect on U.S. trade policy." (*Congressional Quarterly*, 1993, p. 171.) According to the *Congressional Quarterly* the NAFTA Agreement was "the first time the United States had agreed to take down all economic walls guarding it from a country whose economy was as poor and as different from its own as Mexico's." (*Ibid.*)

House Republicans Assure President Clinton's Victory on NAFTA

The *Congressional Quarterly* stated that:

"The complex politics of NAFTA were best demonstrated by Clinton's owing his House floor victory more to Republicans than to his own party. In the dramatic House showdown, Democrats supplied only 102 votes for NAFTA, while 156 Democrats and the one independent voted no. With organized labor strongly opposed, it was no surprise that most Democrats – particularly those from hard-hit industrial areas – were in that camp. Republicans voted 132-43 in favor, far surpassing the 110 votes the party leadership had promised.

"Because the House's chief vote counter, Bonior, opposed the pact, pro-NAFTA Democrats set up their own ad hoc whip organization to help the administration and its chief NAFTA salesmen – Kantor and William M. Daley, a Chicago lawyer hired by Clinton to head the White House NAFTA lobbying effort. Coordinating the in-house effort were Robert T. Matsui of California, who headed a special House task force on NAFTA, and Richardson, one of Bonior's four deputy whips. Republicans worked separately with their own NAFTA whip operation led by Gingrich." (*Ibid.*, p. 178.)

Republican Senators Give Clinton NAFTA Victory

Three days later, on November 20, 1993, the U.S. Senate passed the implementing bill by a wide margin of 61-38.

"Although Clinton's Nov. 20 victory in the Senate was expected, the 61-38 vote reflected the same divisions that had made NAFTA such a tough sell in the House – particularly strong opposition from organized labor. Again, Clinton owed the victory more to Republicans than to members of his party. Thirty-four of 44 GOP senators voted for the agreement, as did 27 of the 55 Democrats casting ballots. (*Vote 395, p. 51-S.*) (*Congressional Quarterly*, 1993, p. 179.)

White House Cuts Deals with Congressmen to Assure Passage of NAFTA

Because of the intense opposition to NAFTA by organized labor and others, the White House decided to make a number of "deals" with various congressmen to persuade them to vote in favor of the HR3450. A lot of arms were twisted by President Clinton, members of the Cabinet and lobbyists retained by the Administration, etc. And a lot of promises were made to secure passage of the Agreement. As noted by the *Congressional Quarterly*:

"NAFTA is a tough challenge for the art of congressional arm twisting. Proponents are trying to sell a policy with global economic implications to lawmakers for whom all politics are local. They are up against two powerful sources of emotional opposition: organized labor and Ross Perot.

"This is not the kind of issue that can be won by appealing to voting blocs. Every vote is being won and lost by intense, person-by-person persuasion. Every day leading up to the House vote will be 'just one more yard in a cloud of dust,' said Re. Robert T. Matsui, D-Calif., a NAFTA supporter.

"The job of rounding up votes is fraught with an unusual amount of uncertainty because many lawmakers don't want to tip their hands a moment too soon – both because the political pressure is so intense and because the opportunity to extract concessions from the administration is so great.

"'They want to cast their vote quietly,' said Rep. Dale E. Kildee, D-Mich., who is active in the anti-NAFTA drive. "'I had one Westerner tell me, 'Dale, you have my word I'll vote with you, but I don't want my name on anyone's list.'"

White House Retains Daley

"The Senate is expected to approve the agreement, so most of the suspense and activity is in the House. With NAFTA opponents claiming more than 200 solid commitments, advocates have almost no margin for error.

"Because the House's chief counter, Majority Whip David E. Bonior of Michigan, is opposed to the pact, pro-NAFTA Democrats have set up their own ad hoc whip organization to help the administration and its chief NAFTA salesmen – special adviser William M. Daley and U.S. Trade Representative Mickey Kantor.

"Coordinating the in-House effort are Reps. Bill Richardson of New Mexico, one of Bonior's four chief deputy whips, and Matsui, a member of the Ways and Means Committee. Republicans are working separately with their own NAFTA whip operation, but the two parties are coordinating their efforts to share responsibility for the controversial pact. Republicans and Democrats are each supposed to produce about 110 votes, to come up with the 218 votes needed to approve the measure." (*Congressional Quarterly*, November 6, 1993, p. 3014.)

NAFTA to Override State Laws

One of the main arguments against the NAFTA Agreement was that a regional bureaucracy would draft rules and regulations for the region that would override U.S. and state laws. This concern was a valid one. The NAFTA legislation (HR3450) it contained this provision:

"State law. Established a federal-state consultative process for the purpose of bringing state laws into conformity with the agreement. Only the federal government could challenge a state law on the grounds that it was inconsistent with the agreement." (*Congressional Quarterly*, 1993, p. 174.)

States Could Be Sued by Federal Government to Bring Laws into Alignment with NAFTA

In an article entitled, "Sound and Fury over NAFTA Overshadows the Debate," the *Congressional Quarterly* noted that, "in cases where there are specific conflicts between provisions of NAFTA and state laws, NAFTA takes precedence. In the unlikely event that a state refuses to change such a law, it could be sued by the U.S. government in an effort to overturn the law." (*Congressional Quarterly*, October 16, 1993, p. 2794.)

It appears that the concerns of opponents of the agreement were correct in their allegation that NAFTA is a direct challenge to representative government and the sovereign powers of the state and national government. Under NAFTA, trade laws would not be written by Congress, as specified in the U.S. Constitution, but by international civil servants or bureaucrats.

Mexico Retains High-Powered Marketing Team to Sell NAFTA

The proponents of NAFTA assembled an all-star cast of high-powered teams to promote the agreement. An article in the *Wall Street Journal* which revealed that:

"Mexico is bankrolling a nationwide campaign to see the trade accord, and Mexico, to Americans.... Mexico government and business interests have hired no fewer than 24 lobbying, public relations and law firms to negotiate and promote the trade pact...it has treated 76 congressional aides to Mexican junkets to meet with government and business leaders. Other Mexican lobbyists have arranged tours for lawmakers and U.S. business officials.... Indeed, no opportunity for influence seems too remote for Mexico's legion of lobbyists." (*The Wall Street Journal*, May 20, 1993.)

An article in the *New York Times* stated:

"The Salinas administration and its many lobbyists in Washington have fashioned what appears likely to be one of the most elaborate efforts at political persuasion ever conducted in America by a foreign country...."

The Mexican Trade and Foreign Ministries – since their successful push last year for approval in the United States of the 'fast track' legislation that authorizes the Bush Administration to negotiate an agreement that Congress cannot amend – have built one of the biggest and most expensive teams of lobbyists and public relations agents of any foreign mission in Washington." (*The New York Times*, August 12, 1992.)

NAFTA Was Used by Mexican Elite to Boost Foreign Investment and Shore Up the Peso

President Salinas and other members of the elite oligarchy that control Mexico realized what was at stake in the NAFTA Agreement and were willing to go all out to persuade Congress to adopt it. The Mexican oligarchy knew the true amount of their foreign debt, they knew that over \$56 billion was due in 1995, and they knew that the Peso was on shaky ground. In their minds they need NAFTA to boost foreign investment in Mexico and to insure a U.S. taxpayer bailout if necessary. That is why they were willing to spend millions of dollars hiring professional lobbyists in Washington, D.C. Since there are 90,000 lobbyists in Washington, D.C., 55,000 of whom are lawyers, the Mexican leaders were able to pick the best and brightest to twist arms in the nation's capitol. The elite in Mexico were vividly aware of what the British knew – influence is for sale to the highest bidder. As *The Economist* noted: "Washington's culture of influence for hire is uniquely open to all buyers, foreign and domestic. Its lawful ways of corrupting public policy remain unrivaled." The *Japan Economic Journal* stated that, "Influence in Washington is just like Indonesia – its for sale." And Korel van Walferen, a Dutch writer, said, "A big part of the problem is that Americans can be bought so easily."

The Mexico leaders spared no expense in insuring that NAFTA passed. After all, tens of billions of dollars were at stake. They were joined by the CEO's of Business Roundtable, the White House and a legion of organizations that favored global interdependence and global free trade at the expense of national and state sovereignty.

U.S. Firms Plan to Move to Mexico

As noted by Sandra Maser, one of the key reasons that the elite in America were promoting NAFTA was to open the door for U.S. companies to move their factories to Mexico, produce a product at a fraction of the production cost in America, then sell the product in American markets. Mace noted that, 'Securing an agreement with Mexico is important to U.S. business' because "Joint production with Mexico, already substantial, is a necessary part of U.S. manufacturing strategy for competitiveness in global markets." (Maser, p. 99.)

An Investment Agreement to Benefit Wall Street Firms

The policies and long term objectives of the elite on Wall Street are clearly revealed in the NAFTA debate. The agreement is not so much a trade agreement as it is an investment agreement for Wall Street and their fraternity throughout the world.

The Power of Wall Street

Sandra Maser was pointing out the power of the Wall Street fraternity when she stated: "With a maximum comprehensive accord in hand, business will go all out to ensure Congressional passage of the agreement." (Maser, p. 103.)

Powerful Forces United to Pass NAFTA

Business leaders joined with the White House and Mexico's elite to "ensure" passage of NAFTA. The congressional members who opposed NAFTA were a courageous group. They opposed the largest lobbying force in American history and they nearly won. And they would have defeated the Agreement in the U.S. House of Representatives except for the lack of principled men and women in Congress. Most of the Congress sold out America for small perks for their Congressional district. Their shortsightedness is unbelievable. Their ability to be "bought" by foreign lobbyists and the White House is scandalous.

Opposition to NAFTA in the House of Representatives

Let us now look at several statements made in Congress over NAFTA just prior to the actual debate on November 17, 1994. The U.S. House of Representatives came very close to defeating the measure. Without the guidance of Congressman Newt Gingrich and other Republican leaders, NAFTA would not have been passed.

The Track Record of Corporate America – A 'No' Vote on NAFTA

Congressman Sanders from Vermont stated:

"Mr. SANDERS. Madam Speaker, the NAFTA agreement is a long and complicated treaty. And the truth is that on both sides there are sincere, honest and principles people.

"While it is terribly important that we understand this treaty as best we can, and many of us in Congress are trying to do that, and while it is terribly important that we try to understand the implications of this treaty as best we can, and a lot of debate about that, it seems to me that it is also terribly important that we try to learn a little bit from history and try to understand who wants this NAFTA treaty and why. Why do they want it?"

Multinational Corporate Support for NAFTA

"Madam Speaker, as my colleagues may know, the NAFTA treaty is being vigorously supported by almost every multinational corporation in America. In fact, these corporations are spending tens of millions of dollars trying to influence the Members of this body to vote for it tomorrow. Further, this treaty, in an amazing way, is being supported by almost every newspaper in America. We have a Nation which is divided, but somehow or another the corporate media, almost without exception, I have yet to see the daily newspaper that is in opposition to NAFTA.

"So we have all of corporate America telling the American people that this agreement is a good agreement for them.

The Track Record of Corporate America

"To my mind, Madam Speaker 64-dollar question is really quite simple: What is the track record of corporate America in terms of standing up and trying to improve the lives of ordinary people? Should we believe them? During the last 20 years what is their record? Let us examine it very briefly.

"Madam Speaker, Members may remember that 12 years ago the wealthy people of this country came forward and they said, 'Give us large tax breaks, and if you give us large tax breaks, we promise you that we are going to reinvest in America and that we are going to create new and good-paying jobs.'

"Was that true? No, it was not true. What happened is, we gave the wealthiest people huge tax breaks and, lo and behold, they became much wealthier and the deficit became larger.

Large Corporations Break Their Pledge to Invest in America

"At the same time, the big corporations in American, they came forward and they said, 'Give us, the big corporations, huge tax breaks. We are going to reinvest in America. We are going to create decent-paying jobs.'

"Well, did they do that? I think the record is very clear; that is not what they did. We gave them big tax breaks, and what they did with their breaks is not build new factories in America, not invest in research and technology here. They took those tax breaks. They ran to Mexico. They ran to the Philippines. They ran to Asia. They ran wherever they could get cheap labor. They were not telling the truth. And in that process, millions of American workers were thrown out of the street as they ran to the Third World to get cheap labor.

Wall Street Funds Leveraged Buyouts

"Then, Madam Speaker, during the 1980's Wall Street said, 'Don't put a tax on the transfer of stocks and bonds. We can't afford it. It is a bad thing. We don't have the money to pay that tax to help deal with the deficit.'

"But Wall Street, amazingly enough, had billions of dollars in order to fund leveraged buyouts which ended up destroying many, many productive and profitable companies in America. And once again, American workers were thrown out on the street.

Corporate America Did Not Tell the Truth

"During the 1980's the leaders of the savings and loan industry, corporate America, said, 'Deregulate us. Get off our backs. Let us reinvest in America. We want to create new jobs.'

"Madam Speaker, once again, I think the record is clear. They were not telling the truth. What they did is turned out to be a bunch of crooks, and the American people, for the next 30 years, will be spending hundreds of millions of dollars paying the debt caused by these crooks.

"During the 1980's and the early 1990's corporate America said to the American workers, 'Things are tough. We have got to tighten our belts. That is what we have got to do. You workers have got to take a decrease in your wages. We can't afford to give you decent wages.'

Corporate America Raises Salaries of CEOs

"Madam Speaker, corporate America was not telling the truth. They raised the salary level and the income level of the CEO's off the wall. Last year, 56 percent increase in the income of the chief executive officers. Workers who are declining in their standard of living, the CEO's now make 157 times more than the average American worker.

"Madam Speaker, the point that I am trying to make is that corporate America has not been telling us the truth on virtually everything that they fought for. What ended up happening is the rich got richer and everybody else got poorer.

Corporate America Is Lying Again

"And now, my colleagues, corporate America wants us to pass NAFTA, and they are telling us that NAFTA is going to create more jobs.

"Madam Speaker, it is the same old song, and I fear that they are once again not telling the truth.

"I think that NAFTA will end up, once again, making the rich richer, but it is going to hurt the vast majority of working people in this country. That is why I am voting 'no' tomorrow and why I hope the house votes 'no'. (*Congressional Record*, November 16, 1993, H9806-H9807.)

Legal Opinion on NAFTA

Congresswoman Unsoeld from the State of Washington inserted the following document in the *Congressional Record*:

MEMORANDUM OF LEGAL OPINION

RE: WILL THE NORTH AMERICAN FREE-TRADE AGREEMENT JEOPARDIZE

FEDERAL, STATE AND LOCAL LAWS?

(By Robert W. Benson, Professor of Law, Loyola Law School, Los Angeles)

I. QUESTION PRESENTED

"The Bush Administration stated that the North American Free Trade Agreement (NAFTA) '[m]aintains existing U.S. health, safety and environmental standards by allowing the U.S. to continue to prohibit entry of goods that do not meet U.S. standards' and '[a]llows the parties, including states and cities, to enact even tougher standards.' Similarly, the Clinton Administration has said that, 'No existing federal or state regulation to protect health and safety will be jeopardized by NAFTA.'

"Are these statements accurate as a matter of law? Or, as critics allege, will NAFTA jeopardize federal, state and local laws, foregoing different, possibly lower standards, particularly in matters involving health, safety, environment and labor?

II. SHORT ANSWER

"NAFTA jeopardizes federal, state and local laws. Analysis of the texts of NAFTA, the Supplemental Accords, and the operation of U.S. and international law necessarily leads to the conclusion that the Bush and Clinton Administration statements are legally inaccurate. Although the NAFTA document itself will technically not have independent effect in U.S. law, it will be incorporated into a federal implementing statute which, like any other federal statute, has the power to prevail over other federal laws and to preempt conflicting state and local laws. While there is significant language in NAFTA that could shield domestic laws from attack if read alone, that language is modified by other provisions that could override domestic laws inconsistent with NAFTA norms. The Bush and Clinton

administration statements selectively rely upon only the protective language and discount the overriding language.

"If a domestic law is challenged as inconsistent with NAFTA, the conflict between the protective and the overriding language will not normally be resolved by American legislators or the judiciary but by arbitral panels composed of five lawyers and international trade specialists appointed by the U.S., Canada and Mexico. Panel proceedings and documents will be secret. The proceedings will not be open to the public or to the local or state officials whose laws are in dispute. If a panel rules that a federal, state or local law is inconsistent with NAFTA, the U.S. government would have an international legal obligation either to accept trade sanctions, to pay compensation to the complaining nation, or to enforce the ruling by steps that could include legislation, litigation, or financial measures imposed against recalcitrant state or local governments. It is in this way that NAFTA jeopardizes laws, traditional democratic processes and sovereignty at each level of government in the United States.

III. ANALYSIS

"A. Legal nature of NAFTA

"NAFTA is not a treaty, but rather a nonself-executing congressional-executive agreement. It is entered into by authority of the Omnibus Trade and Competitiveness Act of 1984 (OTCA),⁴ which authorizes the President to negotiate trade agreements but requires implementing legislation by Congress before an agreement may enter into force. Such trade agreements 'derive their domestic legal effect from the enacted implementing legislation and do not have independent effect in the U.S. law.' Thus, it is technically not the NAFTA document itself but rather the federal statute that implements it that could supersede U.S. domestic laws.

"B. Transcendent power of the federal implementing legislation.

"(i) Federal laws. It is hornbook law that whether one federal statute prevails ('preemption' would not be the term used here) over another depends upon Congressional intent in enacting the statutes. Intent is determined from the words of the statute itself, canons of construction, and legislative history and other extrinsic evidence reflecting the political and social context of enactment. If intent is not apparent and conflict is unavoidable, then the later enacted statute prevails.

"Congress has tied all recent trade agreements to the provision in the Trade Agreements Act of 1979 which provides that 'no provision of any trade agreement...which is in conflict with any statute of the United States shall be given effect under the laws of the United States. NAFTA's implementing statute will probably be tied in the same way. This explicit savings clause, plus evidence from the legislative and political history of NAFTA such as the Bush and Clinton

administration statements quoted at the outset of this memorandum, do permit strong arguments that NAFTA would not threaten existing federal laws. In fact, in recent cases arising under analogous trade laws, U.S. courts have held that Congress did not intend to override the federal laws in dispute, though it could have done so had it wanted to.

Mexico and Canada Will Be Free to Challenge U.S. Laws

"As a practical matter, however, the savings clause is thin protection of federal laws, for several reasons:

"First, the clause would not stop Mexico and Canada from challenging laws that they believe conflict with NAFTA, and the challenges would put pressure on the U.S. to repeal or reinterpret the laws. Mexico, for example, challenged the U.S. ban on dolphin-endangering tuna, Canada challenged our ban on asbestos, and the European Community has challenged the U.S. 'CAFE' standards for fuel economy in automobiles, despite the presence of the savings clause in the U.S. implementing legislation for the General Agreement on Tariffs and Trade (GATT) and the U.S.-Canada Free Trade Agreement.

"Second, conflicts between NAFTA and other federal laws will not usually be resolved by U.S. courts, or by U.S. agencies working under the democratic openness requirements of the Freedom of Information Act, Government in the Sunshine Act, Federal Advisory Committee Act, and Administrative Procedure Act. They will usually be resolved by NAFTA arbitral panels of 5 trade specialists whose proceedings and documents are secret. These panels, inherently structured to favor trade, may well declare U.S. laws in violation of NAFTA despite the presence of the savings clause. This occurred in the tuna/dolphin case when a GATT panel found that the federal Marine Mammal Protection Act violated the U.S.'s obligations to Mexico.¹

"Third, under pressure from the White House, U.S. administrative agencies can be expected to tilt their regulations to favor trade at the expense of other federal statutes.

"Fourth, if the savings clause were rigidly applied, it would render much of the NAFTA text meaningless. If cases ever do come before U.S. judges, trade advocates will cite canons of construction urging the judges to avoid interpretations that lead to absurd results, that vitiate statutes, or that find conflicts. These canons would pressure judges, already under doctrinal pressure to defer to the President in foreign affairs, to uphold NAFTA norms in ways that erode federal statutes without flatly overturning them.

"Fifth, future federal laws will be drafted to avoid conflict with NAFTA standards, causing legal criteria like the rational basis test, due process, environmental impact, open proceedings, open records, and public participation –

criteria that were established over decades in epic battles – to be abandoned in favor of narrow tests that principally concern impact on trade and that require closed proceedings.

State and Local Laws

“(ii) State and local laws. Under the Supremacy Clause of the U.S. Constitution a federal statute preempts state and local laws if Congress intends it to or if conflict is unavoidable. The Supremacy Clause also establishes that treaties (and executive agreements)¹⁷ preempt state and local laws. While NAFTA will preempt via federal statute rather than as a treaty or executive agreement, the strong tradition of preemption by treaties and executive agreements makes it all the easier to find preemption by NAFTA.

“The NAFTA implementing statute may contain a provision expressly preempting state and local laws in conflict with it, like that in the Canada-U.S. Free Trade Agreement which states: ‘The provisions of the Agreement shall prevail over (A) any conflicting State law.... The United States may bring an action challenging any provisions of State law...inconsistent with the Agreement.’ The legislative history of the Canadian agreement emphasizes Congress’ intent: ‘These provisions implement the obligation...to take all necessary steps to ensure observance of provisions by State...and local governments, and are consistent with the Constitutional preemption doctrine. No problems with State measures are anticipated and court action would be only a last resort.’

Preemption of State Laws

“Even if the NAFTA implementing statute is silent about preempting state and local laws, the threat persists. Preemption can be found by implication or by unavoidable conflict between the federal and state or local laws. Since the text of the NAFTA document requires the federal government to take ‘all necessary measures’ to implement the terms of NAFTA, ‘including their observance...by state...governments,’ and since ‘reference to a state...includes local governments of that state...,’ there will be both an implied and an unavoidable preemption of conflicting state and local laws. For certain NAFTA rules, the requirement is that ‘appropriate measures’ be taken to enforce them against state and local governments. Under analogous requirements in GATT that ‘all reasonable measures’ be taken, a GATT panel ruled in February, 1992 that the U.S. had to face trade sanctions or take action to change beer and wine tax and distribution practices in some 40 states:

Executive Agreements Are Part of U.S. Law

“Citing the treatises of the two leading U.S. legal scholars on international trade, Professor John Jackson of the University of Michigan and Professor Robert Hudec of the University of Minnesota, the GATT panel ruled that once adopted by

Congress, international executive agreements become part of U.S. federal law, and as such trump inconsistent state and local law.

"Further...the GATT panel ruled that ['all reasonable measures'] language required the U.S. federal government to take all steps within constitutional authority to force state compliance with GATT measures and panel rulings. This would include preemptive federal legislation, litigation to preempt the GATT-inconsistent state laws and withdrawal of all federal support (funding and other) for GATT-inconsistent state practices.

"Reacting to the GATT ruling, the National Conference of State Legislatures issued an 'Information Alert,' noting correctly that 'countries could use the case as a basis for challenging other types of state laws they have questioned in the past, including those involving the environment and product safety.'

Trade Dispute Panels

"Even if the NAFTA implementing statute were to provide expressly that no state or local law is preempted, the threat persists. The situation would be the same already analyzed above with respect to the savings clause for federal laws, and the same problems recur. First, the clause would not stop Mexico and Canada from challenging state and local laws that they believe conflict with NAFTA. Second, conflicts between NAFTA and state and local laws will not usually be resolved by American courts or agencies working under open government requirements. They will usually be resolved by NAFTA arbitral panels of 5 trade specialists whose proceedings and documents are secret. State and local officials, represented only by U.S. federal officials, have no right to participate to defend their laws. These panels may well declare state and local laws in violation of NAFTA despite the presence of the savings clause. Third, under political pressure from Washington, state and local agencies can be expected to tilt their laws to favor trade at the expense of their other laws. Fourth, if the savings clause were rigidly applied, it would render much of the NAFTA text meaningless. If cases ever do come before U.S. judges, trade advocates will cite canons of construction that would pressure judges to uphold NAFTA norms in ways that erode state and local laws without flatly overturning them. Fifth, there will be pressure to draft future state and local laws to avoid conflict with NAFTA standards, causing legal criteria like the rational basis test, due process, environmental impact, open proceedings, open records, and public participation to be abandoned in favor of narrow tests that principally concern impact on trade and that require closed proceedings.

NAFTA Contains Conflicting Texts

"C. The protective text vs. the overriding text.

"The fact that the Bush and Clinton administrations have been able to quote NAFTA language that appears to protect U.S. health, safety, environmental and

other laws from threat, while opponents have quoted NAFTA language that appears to threaten U.S. laws, is explained by the simple fact that NAFTA contains two conflicting textual threads. Under political pressures from both sides, drafters wove both threads throughout. As the document was conceived primarily as a trade agreement, however, the trade thread overrides the thread protecting U.S. laws in virtually every chapter. To assure that trade trumps all laws, the drafters even inserted a general clause in Annex 2004 allowing challenge of whenever any party 'considers that any benefit it could reasonably have expected to accrue to it' under most of NAFTA has been 'nullified or impaired as a result of any measure that is not inconsistent with this Agreement.' [Emphasis added.] Some of the more specific key provisions in the 1,140 pages of text are:

"Chapter One: Objectives

"Protective Provisions:

"Art. 104. Five international agreements on endangered species, ozone, hazardous waste and border cooperation prevail over NAFTA.

"Overriding provisions:

"Art. 104. But only domestic enforcement which is 'least inconsistent' with NAFTA is protected. And dozens of agreements to which one or several NAFTA countries are party are not listed are therefore not protected.

"Art. 102. Parties 'shall interpret and apply' NAFTA in light of a list of exclusively free trade objectives. Environmental, health, safety and other objectives are not listed.

"Art. 105. Parties 'shall ensure that all necessary measures are taken in order to give effect to this Agreement, including their observance, except as otherwise provided in this Agreement, by state [and local] governments.'

"Chapter three: National Treatment

"Protective provisions:

"Annex 301.3(C). Controls on log exports are exempted from 'national treatment' and export restrictions.

"Overriding provisions:

"Arts. 301 and 309. Parties and their state and local governments 'shall accord national treatment to the goods of another Party' and may not adopt 'any prohibition or restriction' on goods of another Party, in accordance with GATT 'including its interpretive notes.' This incorporates the Tuna/Dolphin jurisprudence

prohibiting restrictions on goods based on their production process methods, including methods harmful to health, safety, the environment or labor and human rights. It also proscribes certain domestic subsidies. Even the exemption for logs does not protect log export controls from attack under other NAFTA provisions. See analogous determination in the Softwood Lumber Products dispute, 57 Fed. Reg. 8812 (March 12, 1992).

"Chapter Six: Energy and Basic Petrochemicals

"Protective Provisions:

"Art. 607. National security and defense may justify restrictions on imports and exports of energy goods.

"Overriding Provisions:

"Art. 605. Restrictions on energy exports permitted only under narrow circumstances.

"Art. 606. Energy regulatory measures permissible only if they do not violate rules opening energy imports and exports, and only if they accord 'national treatment' under Art. 301. They must 'avoid disruption of contractual relationships' to maximum possible extent.

"Art. 608. Subsidies for oil and gas are permissible. By implication, and in conjunction with Art. 606, incentives for solar, wind, and other alternative energy supplies appear to be prohibited.

"Chapter Seven: Human, Animal and Plant Health Measures

"Protective Provisions:

"Art. 712. Each Party may adopt measures 'for the protection of human, animal or plant life or health in its territory, including a measure more stringent than an international standard, guideline or recommendation.' Each party may 'establish its appropriate levels of protection....'

"Art. 713. Measures shall be based on international standards 'without reducing the level of protection,' and may be 'more stringent' than international standards.

"Overriding Provisions:

"Art. 712. Above right to more stringent standards must be 'in accordance with this Section. [Seven (B)]' which limits how the level of protection may be set.

"Appropriate levels of protection must be in accordance with Article 715.

"Any measure must be 'based on scientific principles,' and a scientific 'risk assessment,' must not 'arbitrarily or unjustifiably discriminate' against foreign goods, must be applied 'only to the extent necessary to achieve its appropriate level of protection,' and must not be a 'disguised restriction on trade....'

"Art. 715. In establishing its 'appropriate level of protection,' each Party shall take into account, among other things, 'loss of production or sales that may result from the pest or disease,' 'the objective of minimizing negative trade effects,' and the objective of avoiding 'arbitrary or unjustifiable distinctions....'

"Art. 717. Inspection procedures of imported goods shall be completed 'expeditiously.' Parties 'shall limit any requirement regarding individual specimens or samples' to those 'reasonable and necessary.'

"Art. 718. Each Party proposed to adopt or modify a health standard at the federal, state or local levels must give early notice and opportunity to comment to other Parties.

"Chapter Nine: "Technical Barriers to Trade Protective Provisions:

"Art. 904. Each Party may adopt any standards-related measure 'including any such measure relating to safety, the protection of human, animal or plant life or health, the environment or consumers....' Each Party may 'establish the levels of protection that it considers appropriate....' 'Legitimate objectives' may be pursued, and are defined [Art. 915] as including 'safety, protection of human, animal or plant life or health, the environment or consumers... [and] sustainable development.'

"Art. 906. Higher levels of protection than those in international standards may be established.

"Overriding Provisions:

"Art. 902. Parties 'shall seek, through appropriate measures, to ensure observance of Articles 904 through 908 by state [and local] governments....'

"Art. 904. Standards must be 'in accordance with this Agreement.' Standards must accord 'national treatment' under Art. 301. Standards may not be adopted 'with a view to or with the effect of creating an unnecessary obstacle to trade.' Goods of another party meeting the 'legitimate objective' may not be excluded. Definition of 'legitimate objective' [Art. 915] calls for consideration of 'technological' factors and 'scientific justification.'

"Art. 909. Each Party proposing to adopt or modify a technical regulation at the federal or state level must give notice and opportunity to comment to the other Parties.

IV. CONCLUSION

"American elected officials and their legal advisors need to take very seriously the assertions that their present and future laws are in jeopardy. NAFTA opponents such as the Sierra Club and Public Citizen have argued reasonably that NAFTA's language threatens such federal laws such as the Delaney Clause, other food, safety and pesticide laws, many wildlife and conservation statutes, state air and water pollution laws, labor laws, food, consumer, safety, energy, packaging and labeling laws, including California's Proposition 65, as well as local recycling, energy, transportation and other laws. Professor Robert Stumberg of the Georgetown University Law Center has released a chart of 45 types of typical state laws that could be challenged under NAFTA. Lawyers for the National Resources defense Council, one of six environmental groups supporting NAFTA, have analyzed the issue. Even relying heavily on unofficial interpretations and nonbinding private assurances from the U.S. Trade Representative Mickey Kantor, they conceded that some U.S. laws are indeed threatened and limited themselves to a relatively weak claim that the rest of NAFTA's threat is 'highly unlikely.' Specialist, pro-NAFTA business attorneys with the law firm of Baker and McKenzie, addressing NAFTA, have written that 'challenges to environmental or health and safety regulations as trade restrictions are not uncommon, and it is difficult to imagine an environmental standard that could not be challenged by the industrial sector it affects based upon its impairment of unfettered economic activity.'

"The most disturbing aspect of NAFTA for state and local elected officials and their legal advisors, however, may be that they will have no right to participate in the secret arbitral panel proceedings that challenge their laws, and no appeal. This may also be the most disturbing aspect of NAFTA for citizens and voters, constituting as it does perhaps the most radical shift of power from open, local government to closed, distant government that our nation has yet experienced.

(Congressional Record, November 16, 1993, pp. H9819-9821.)

Debate in the U.S. House of Representatives on NAFTA

On November 17, 1993, the U.S. House of Representatives began debate on the NAFTA Agreement. One of the key issues was whether the U.S. should launch itself on a path to economically integrate with Mexico and Canada. The U.S.-Canadian Trade Agreement in 1988 began the trek toward economic integration. NAFTA began the process of economic integration with Mexico and set up a model for extension of the Agreement throughout Latin and South America.

Let us now look at the debate in the House.

Flaws in NAFTA

Congressman Solomon, a representative from the state of South Carolina stated:

"Mr. SOLOMON... "Mr. Chairman, there are many flaws in this so-called free-trade agreement, but five of them, I think, stand out as the most egregious:

"First, NAFTA violates the U.S. Constitution. Second, it threatens the sovereignty of this great Nation. Third, it will result in more Federal porkbarrel spending, the creation of another U.S. taxpayer-funded international bank, similar to the World Bank, and more foreign air paid out of the pockets of the American people.

"Fourth, it will raise taxes, once again, on the American people. And my gosh, when will that stop?

"Fifth, and perhaps most importantly, the Mexican Government continues to be totally undemocratic and cannot be trusted to keep its end of the bargain.

Lawsuit Over Violation of U.S. Constitution Is Being Prepared

"Allow me to address just some of these flaws. As to the Constitution, there is no question that this pact violates articles I, II, and III of the Constitution, as well as the fifth amendment. In fact, a lawsuit is being prepared right now in the event that NAFTA does pass.

"Additionally, the inclusion of the Clinton administration's side agreements violates U.S. law, and it violates the rules of this House.

"Under the terms of the 1988 Trade Act, the fast-track procedures under which we are considering this agreement today apply only to agreements entered into before June 1, 1993.

"Mr. Chairman, we both know that the side agreements were negotiated after June 1 and, thus, should be voted on separately by this Congress. But there is not going to be any separate vote. There is going to be one up-or-down vote on all of this, 7,000 pages. And none of my colleagues have read it. There is not a Member in this House who has read it. I have not read it, and I was in my office till midnight last night trying to see exactly what is in this, to at least have some comprehensive understanding of it.

NAFTA Will Create New International Bureaucracies

"Regarding the sovereignty issue, NAFTA will create huge new international bureaucracies and tribunals paid for by who else? By the American taxpayers. And we Republicans are going to vote to create these new international bureaucracies and tribunals? And these new bureaucracies and tribunals will be employers to resolve disputes over trade, environmental and regulatory issues? Regulatory issues? Superseding U.S. law and State law?

Creation of New Agencies

"Listen to these new agencies, and I am sorry to get so excited about this. The North American Free-Trade Commission. Think about it. The North American Development Bank, another World Bank style bureaucracy paid for by the man in the barrel, the American taxpayer. And this bank, incidentally, is a payoff to some in our California delegation. We will hear about that.

"That we have the Border Environment Cooperation Commission.... Members can bet their last taxpayer's dollar that is another huge new bureaucracy accountable to whom? Accountable to no one in America.

Unelected and Unaccountable Trade Dispute Tribunals

"Mr. Chairman, it goes on and on. Take the time too read this pact. These unelected, unaccountable tribunals will effectively usurp the legitimate authority of this U.S. Congress. They will usurp and abrogate States' rights. Members own State laws dealing with the environment and labor. And they will override our own U.S. Federal Court System.

"Mr. Chairman, upon taking office each one of us swears to uphold our cherished Constitution. We did not swear to tear it down, to abrogate it, to usurp it. But that is exactly what we are doing here. Read the pact, read the side agreements.

"Mr. Chairman, as I stated before, some of these trilateral bureaucracies represent political payoffs by the administration to some reluctant Members of Congress. And what else has the administration promised?

New Protectionist Measures

"Some of the new protectionist deals in what is supposed to be a free-trade pact include deals on peanuts, citrus fruits, corn syrup, sugarbeets, cotton, beef, and tomatoes. There are unauthorized road and bridge projects, textile protection in Virginia, manhole covers in Louisiana, and heaven knows what else. Mr. Chairman, should not these deals be voted on separately by this Congress? Do my colleagues know what would happen to them? They would all go down in flames. They would not be a part of this process.

"Mr. Chairman, there is even more. For instance, the list of goodies used to literally buy votes, although legally, includes two new C-17 cargo planes at a cost of \$1.5 billion to buy just one vote. These two airplanes are not even in the budget for 1994. How is President Clinton going to deliver those two planes? And Members going to vote for it? They know they are not. So we cannot deliver. So whoever is selling their vote for two of these planes, is not going to get it. That deal is going to be reneged.

"And then we have the helium reserve down in Texas, \$305 million. Eliminating that was in President Clinton's rescission bill which is sitting over there on the desk waiting for us to vote on it. But we will never have a chance to enact it because the appropriators are going to kill it. And they are not even going to give us a chance. But there President Clinton is promising to put back in this helium thing which he has already asked us to turn down.

The Clinton Administration Has Bought Pro-NAFTA Votes with \$50 Billion Dollars in Goodies

"Mr. Chairman, this administration has brought, but not paid for, scores of pro-NAFTA votes, courtesy of the taxpayers. And those taxpayers are going to be outraged when they start adding them up.

"Did Members read the New York Daily News or the New York Post this morning? Front page stories say there is \$50 billion in goodies, giveaways.

"Speaking of taxes, it goes without question that reduced tariffs under NAFTA will cost, according to most estimates, \$2.5 billion. And it is going to be much higher than that. The gentleman from Illinois [Mr. Rostenkowski] knows that. And how does the administration propose to pay for this? Of course, in the usual way around here, we are going to raise taxes, as if the largest tax increase in the history of this Nation 3 months ago was not enough.

"Let me tell Members something, it will be enough for the American people. My friends, judgment day is coming. It is coming next November. We are all up for reelection in less than a year. That is not very long for some of the new Members in particular.

"Let me tell Members, it will be here in a split second. All of a sudden, opponents are going to be out there screaming at Members. It will be here before we know it. And colleagues, the American people do not care whether we are Republicans or Democrats. They are going to throw us out of here if we do not stop taxing and spending and regulating the American people.

Mexico Has a One Party Dictatorship

"Lastly, Mr. Chairman, let me just address the question of the Mexican Government. Let us face it. It is a one-party dictatorship. One political party in Mexico has been in power and has magically won every election since 1929. That is 64 years. That is longer than the Democrats have controlled this House. And how do Members think that happens? Every democracy in this hemisphere experiences problems every once in a while. But one-party rule for 64 years? Do we call that a democratic government in Mexico? Members know better.

There Is Major Corruption in Mexico

"Mr. Chairman, that government is not accountable to the American people or even to the Mexican people. It is only accountable to its own self-interest. Mr. Chairman, the Mexican Government can and does violate its own laws. Those politicians turn their heads, and there is corruption all over the place. They routinely fail to enforce their own labor laws and environmental regulations already.

"The Mexican government has already stated that it will not write the side agreements to NAFTA into Mexican law, as they are in our country, where there is recourse if American businesses do not live up to the law. There is no recourse in Mexico.

"And while American businesses will have to meet our already high standards, and in New York State they are even higher than the rest of the Nation, nothing is going to happen in Mexico.

"Mr. Chairman, this agreement amounts to little more than a handshake. I am going to tell my colleagues right now, as a member of the Committee on Foreign Affairs for many years, the Mexican Government cannot be trusted to make good on just a handshake.

The U.S. Should Only Deal with Mexico Bilaterally

"Let me tell Members, the way to deal with a nation like Mexico is not in this trilateral operation that we have in this bill. We need to deal bilaterally, without the interference of some bureaucracy that is accountable to no one, especially not to the American people.

"Members of Congress, we could demand bilaterally that the Mexican Government write these agreements into their own commercial code and enforce them before we initiate the agreement. That is how we deal bilaterally. We have all of this influence in America. All we have to do is tell them what to do, and they will have to do it.

"Mr. Chairman, after NAFTA passes Mexico will have no incentive to implement any side agreements, and they will not do it. The result will be the destruction of hundreds of thousands of U.S. jobs. We know that. That is why we have all of these deals in the bill to work out retraining programs for Americans who are going to lose their jobs. It is in the bill. Read it. How do we justify that?

NAFTA Is Not Going to Work

"Mr. Chairman, NAFTA is currently, as negotiated, just not going to work. I am going to tell Members something right now. We can work out a free-trade pact

with Mexico, we can do it. But we have to sit down and do it together as Republicans and Democrats working with the President. And I pledge to my colleagues that I will be the first to do that, as a free trader all my life. But we have to remember that we cannot do something that is going to take away American jobs. The American people deserve better than that, and that is why I will vote 'no' on this bill.

"But I pledge to Members to work to try to develop something that will certainly make for a level playing field for the American people, so that they can compete and save their jobs." (*Congressional Record*, November 17, 1993, H9876-H9878.)

Jeopardizing the Future of American Workers

Congressman Ford, a representative from Michigan, stated:

"Mr. FORD of Michigan. Madam Chairman, I rise in opposition to H.R. 3450, the bill to implement the North American Free-Trade Agreement.

"Today, America's workers are watching us. They know their jobs and their standard of living are at risk. NAFTA is a bad deal for American workers because it jeopardizes their future.

"I have opposed this NAFTA from the outset. In 1991, I voted against granting the Bush administration fast track authority to negotiate a trade agreement with Mexico because I believed that Congress should not relinquish its right to amend an agreement that would affect each and every American worker. I was right. Congress was foolish to assume that our negotiators would reach a trade agreement that was so good for American workers, business, and consumers that it could not be improved.

American Jobs Are At Risk

"This NAFTA promises that more American jobs will be threatened by competition with low-wage Mexico. This NAFTA fails to link Mexican wage increases with productivity increases, which would ensure that American living standards do not decline. This NAFTA fails to ensure that the hard-won health and safety standards of the American workplace will not be diminished in the face of competition from a country that fails to enforce its child labor, health, and safety standards.

NAFTA Is an Investment Agreement

"Mr. Chairman, this agreement protects property rights, not human rights. In reality, it is an investment agreement, not a trade agreement. Its purpose is to secure American investments in Mexico, allowing American companies to take

advantage of dollar-an-hour labor. It promotes capital investment in a Third World country, rather than the mutual advantage to all three countries of raising Mexico's labor and environmental standards to the first-world status of the United States and Canada.

"Labor and environmental issues, inadequately addressed by the side agreements, should have been at the core of the agreement, not afterthoughts intended to placate wavering Members of Congress.

The Effect of NAFTA on Working Americans Will Be Devastating

"The effect of NAFTA on working Americans will be devastating. The Committee on Education and labor has heard testimony from workers whose jobs have been eliminated by American employers moving to Mexico. I want to mention two of these stories, stories will multiply if we make the mistake of approving NAFTA.

"U.S. Auto Radiator used to manufacture auto parts in Highland Park, MI. It moved 300 jobs to Mexico. Hattie Smith worked for U.S. Auto Radiator for 12 years, earning \$7.60 an hour. As her last duty before she was fired, Hattie was sent to Mexico to train her 65 cents an hour replacements – 13-year-old girls working without protective gear.

"When Electro-Wire Corp., which makes parts for General Motors and Ford, shifted its production to Juarez, Mexico, 3 years ago, 100 workers in Owosso, MI, lost their jobs. Bernadette Ford told my committee that she knew her job was in trouble when her plant manager hung on the bulletin board a letter from the mayor of Juarez expressing his pleasure with the new plant and offering to supply an unlimited work force for 53 cents an hour. Bernadette said the letter was used to explain to employees why they weren't getting any pay raises.

"These are just two examples of Michigan's loss of 300,000 manufacturing jobs in the past decade. Over the same period, manufacturing jobs in Mexico have increased 700 percent. Prominent economists issue studies showing that NAFTA will create American jobs because of increased exports to Mexico. But these studies do not evaluate the devastating consequences for American communities of the jobs lost because products that used to be made here are now made in Mexico.

Moving U.S. Companies to Mexico

"One export industry NAFTA supporters do not mention exists to help American companies move their operations to Mexico. I obtained a solicitation from one of these businesses. It is called AIRS America, for Americas Industry Relocation Services, Inc., and it is based in Philadelphia. AIRS advertises its ability to help American companies, in the wake of NAFTA, 'set up new offshore operations 100 percent owned by you or in a joint venture with a Mexican partner.'

"AIRS America, in its solicitation, explains that United States companies can save huge sums on labor costs by relocating to Mexico. For example, it calculates, an American company with 100 employees, paying the prevailing U.S. wage of \$15 including fringe benefits, could save \$2.9 million per year in labor costs.

Our Largest Export to Mexico Will Be Jobs

"With savings like this, you can be sure that our largest export to Mexico will be American jobs.

"Corporate America has made no secret of its desire to move production to Mexico. In a well-known survey of American executives published in the Wall Street Journal last year, 40 percent said they were very likely or somewhat likely to shift production to Mexico under NAFTA. One-fourth said they were likely to use NAFTA as a bargaining chip to hold down wages in the United States.....

White House Attacks on U.S. Labor

"Finally, Mr. Chairman, I want to comment on the attacks that NAFTA supporters, including the President, have made on the leaders of organized labor. Implicit in the criticism is the assumption that rank-and-file workers ought to support NAFTA but have been herded in a backward-thinking direction by labor leaders.

"If you come from a district like mine, and you just talk to some of the working men and women who have devoted their lives to companies that now salivate at the prospect of moving jobs to a Third World country just a thousand miles away, you will know that opposition to this treaty is rooted in the hearts of the people who have made this country great, who struggle to pay their mortgages and send their kids to college, to save something for retirement and enjoy the fruits of their labor. They know this NAFTA is a bad deal for them.

NAFTA Should Be Rejected

"That is why, Mr. Chairman, I urge my colleagues to defeat this agreement. We can and we must do better....

AIRS Americas Advertisement

AIRS Americas

"Good Morning!

"Thank you for contacting AIRS AMERICAS. We can help you relocate your facilities to Mexico. With the pending passage of a North American Free Trade Agreement, Mexico represents one of the best areas to expand your industrial base,

market products and substantially reduce your labor costs. We can set up new offshore operations 100% owned by you or in a joint venture with a Mexican partner.

"We can help your company successfully set up a facility in Mexico. We have a team of corporate, legal and fiscal professionals, both U.S. and Mexican nationals, with years of experience in Mexico and Latin America.

"What can we do for you? We can prepare a Strategic Relocation Report defining an appropriate course to fulfill your objectives. We can assist in the implementation of the plan and establish all necessary governmental and private sector contacts on your behalf.

"We believe that Mexico and Latin America represent many competitive advantages for you to consider. Interested to learn more about these opportunities? I would enjoy meeting with you to discuss your plans for expansion into Mexico. Please call me in the USA at 215-533-4500. All discussions will be held in strict confidence.

Very truly yours,

BARRY S. FEATHERMAN,

Executive Vice President.

PRO FORMA LABOR SAVINGS WORKSHEET

"The following average model provides you with approximate labor savings for a U.S.-based company with 100 workers. You can substitute your own labor and fringe costs, plus total number of employees to arrive at your actual savings. Fill in blank worksheet on opposite side of the page.

UNITED STATES

"\$15 U.S. labor with fringes/per hour times 40 hours worked per week equals \$600 cost per worker per week dollars U.S.

"100 number of employees times \$600 weekly wage dollars times 52 equal weeks per year equals \$3,120,000 yearly labor cost per 100 workers dollars U.S.

MEXICO

"1.00 Mexico labor with fringes per hour dollars times 40 hours worked per week equals \$40 cost per worker per week dollars U.S.

"100 number of employees times \$40 weekly wage times 52 equal weeks per year equals \$208,000 yearly labor cost per 100 workers dollars U.S.

LABOR SAVINGS FOR UNITED STATES COMPANY WITH 100 WORKERS RELOCATED IN MEXICO

"\$3,120,000 yearly labor costs dollars per 100 U.S. workers minus \$208,000 yearly labor costs dollars per 100 Mexico workers equals \$2,912,000 savings per year in United States dollars.

"Bottom Line: Labor costs in Mexico average about \$1.00 U.S. per hour. If you operate a labor intensive manufacturing facility, you will increase your profits by relocating to Mexico." (*Congressional Record*, November 17, 1993, pp. H9898-9900.)

The U. S. House of Representatives Approves the NAFTA Agreement

On November 17, 1993, the U.S. House of Representatives adopted HR 3450. The vote was as follows:

AYES – 234

Allard, Andrews (TX), Archer, Arme y, Bacchus (FL), Baesler, Baker (CA), Baker (LA), Ballenger, Barrett (NE), Barton, Bateman, Becerra, Beilenson, Bereuter, Berman, Bliley, Boehlert, Boehner, Bonilla, Brewster, Brown (CA), Bryant, Buyer, Callahan, Calvert, Camp, Cantwell, Cardin, Castle, Chapman, Clement, Clinger, Coble, Coleman, Comb est, Cooper, Coppersmith, Cox Crane, Cunningham, Darden, de la Garza, Deal, DeLay, Dickey, Dicks, Dooley, Dornan, Dreier, Duncan, Dun, Durbin, Edwards (TX), Emerson, English (AZ), English (OK), Eshoo, Ewing, Farr, Fawell, Fazio, Fields (TX), Fish, Flake, Foley, Ford (TN), Fowler, Franks (CT), Franks (NJ), Frost, Gallo, Gekas, Geren, Gibbons, Gilchrest, Gillmore, Gingrich, Glickman, Goodlatte, Gooding, Gordon, Goss, Grams, Grandy, Greenwood, Gunderson, Hamilton, Hancock, Hansen, Hastert, Hastings, Hayes, Hefley, Hefner, Herger, Hoagland, Hobson, Hoekstra, Horn, Houghton, Hoyer, Huffington, Hutchinson, Hutto, Hyde, Inslee, Istook, Jefferson, Johnson (CT), Johnson (GA), Johnson, E.G., Johnson, Sam, Johnston, Kasich, Kennedy, Kim, King, Klug, Knollenberg, Kolbe, Kopetski, Kreidler, Kyl, Lambert, Laughlin, Lazio, Leach, Lehman, Levy, Lewis (CA), Lewis (FL), Lightfoot, Linder, Livingston, Lloyd, Lowey, Machtley, Mann, Manzullo, Market, Matsui, Massoli, McCandless, McCollum, McCrery, McCurdy, McDade, McDermott, McInnis, McKeon, McMillan, Meehan, Meek, Meyers, Michel, Miller (FL), Mineta, Molinari, Montgomery, Moorhead, Moran, Morella, Neal (NC), Nussle, Ortiz, Oxley, Packard, Parker, Pastor, Paxon, Payne (VA), Pelosi, Penny, Petri, Pickett, Pickle, Porter, Portman, Price (NC), Pryce (OH), Quillen, Ramstad, Reynolds, Richardson, Ridge, Roberts, Rohrabacher, Rose, Rostenkowski, Roth,

Roukema, Rowland, Roybal-Allard, Sarpalius, Sawyer, Schaefer, Schiff, Schroeder, Sensenbrenner, Shaw, Shays, Shepherd, Skaggs, Skeen, Skelton, Smith (IA), Smith (MI), Smith (OR), Smith (TX), Spratt, Stenholm, Studds, Stump, Sundquist, Swift, Synar, Tanner, Tejada, Thomas (CA), Thomas (WY), Thornton, Torkildsen, Torres, Upton, Valentine, Walker, Whitten, Wolf, Wyden, Young (FL), Zeliff, Zimmer

NOES – 200

Abercrombie, Ackerman, Andrews (ME), Andrews (NJ), Applegate, Barca, Barcia, Barlow, Barrett (WI), Bartlett, Bentley, Bevil, Bilbray, Bilirakis, Bishop, Blackwell, Blute, Bonior, Borski, Boucher, Brooks, Browder, Brown (FL), Brown (OH), Bunning, Burton, Byrne, Canady, Carr, Clay, Clayton, Clyburn, Collins (GA), Collins (IL), Collins (MI), Condit, Conyers, Costello, Coyne, Cramer, Crapo, Danner, DeFazio, DeLauro, Dellums, Derrick, Deutch, Diaz-Balart, Dingell, Dixon, Doolittle, Edwards (CA), Engel, Evans, Everett, Fields (LA), Filner, Fingerhut, Foglietta, Ford (MI), Frank (MA), Furse, Gallegly, Gejdenson, Gephardt, Gilman, Gonzales, Green, Gutierrez, Hall (OH), Hall (TX), Hamburg, Harman, Hilliard, Hinchey, Hochbreckner, Hoke, Holden, Hughes, Hunter, Inglis, Inhofe, Jacobs, Johnson (SD), Kanjorski, Kaptur, Kennelly, Kildee, Kingston, Klecska, Klein, Klink, LaFaloe, Lancaster, Lantos, LaRocco, Levin, Lewis (GA), Lipinski, Long, Maloney, Manton, Margolies-Mezvinsky, Martinez, McCloskey, McHale, McHugh, McKinney, McNulty, Menendez, Mfume, Mica, Miller (CXA), Minge, Mink, Moakley, Mollohan, Murphy, Murtha, Myers, Nadler, Natcher, Neal (MA), Oberstar, Obey, Olver, Orton, Owens, Pallone, Payne (NJ), Peterson (FL), Peterson (MN), Pombo, Pomeroy, Poshard, Quinn, Rahall, Rangel, Ravenel, Reed, Regula, Roemer, Rogers, Ros-Lehtinen, Royce, Rush, Sabo, Sanders, Sangmeister, Santorum, Saxton, Schenk, Schumer, Scott, Serrano, Sharp, Shuster, Sisisky, Slattery, Slaughter, Smith (NJ), Snowe, Solomon, Spence, Stark, Stearns, Stokes, Strickland, Stupak, Swett, Talent, Tauzin, Taylor (MS), Taylor (NC), Thompson, Thurman, Torricelli, Towns, Traficant, Tucker, Unsoeld, Velazquez, Vento, Visclosky, Volkmer, Vucanovich, Walsh, Washington, Waters, Watt, Waxman, Weldon, Wheat, Williams, Wilson, Wise, Woolsey, Wynn, Yates, Young (AK).

Debate in the U.S. Senate

The U.S. Senate began debate on the NAFTA Agreement on November 18, 1993. Let us look at some of the key arguments in that debate.

How Do You Have Free Trade with a Country That Is Not Free?

Senator Hollings, a senator from the State of South Carolina stated:

"Mr. HOLLINGS. Mr. President. I thank the distinguished chairman of the Finance Committee. We could wrap up this debate in a single sentence, then rest our case, by quoting the distinguished Finance Committee chairman: 'How can you

have free trade with a country that is not free?' Mexico does not have free elections nor a free market. That is the crux of my objection to proceeding down the NAFTA route in our relations with Mexico.

"Time and again, the pro-NAFTA crowd accuses anti-NAFTA advocates of raising people's fears. Let me plead guilty. I am fearful. I am very much imbued with fear of the economic consequences of unrestricted trade with Mexico.

"Likewise I plead guilty to the charge of being a protectionist. On a selective and common sense basis, I am indeed a protectionist. And I am in sound company.

Economics 101

"I will never forget economics 101 and the doctrine of comparative advantage advocated by David Ricardo. He said nations should look to their comparative advantage in choosing which products to export. Nation A would export what it produces most economically, Nation B will trade back what it produces best, and both Nations will prosper.

Early Americans Were Protectionists

"The fact is the British proposed exactly this kind of trade relationship to Alexander Hamilton in the earliest days of our Republic. The British proposed that they would export manufactured goods in exchange for America's raw materials and agricultural products. Hamilton replied in a booklet titled 'Report on Manufactures.' In a word, Hamilton said, 'Bug off. We are not going to remain your economic colony. We will develop our own manufacturing base.'

"The first congressional act pertained to posts and bills. But the second act passed by the new U.S. Congress, on July 4, 1789, was a protectionist bill, a bill that raised tariffs of up to 50 percent on some 30 articles ranging from iron to textiles. That was America's response to the British. Not willing to remain their economic colony, we chose to build up our own economic backbone.

U.S. Developed Its Industrial Base

"I can also cite the example of President Lincoln just prior to the Civil War with respect to building the intercontinental railroad. Rather than import steel for the rails, he insisted that America build its own steelmaking capacity.

"Likewise in agriculture. The United States has the greatest and most productive agriculture in the history of the world. This accomplishment is in no small measure the product of protectionist policies, import quotas, restrictive agreements and so on.

"President Eisenhower back in 1955 put in protective quotas for oil imports so as to develop our domestic oil production.

Every Nation Uses Protectionism

"Every Nation has used protectionist policies in order to build up their domestic industries and agriculture. Certainly, Mexico has done so, and we understand it.

"So, let us get away from this exaggerated reverence for free trade as though it were something holy and sacrosanct. It isn't.

An Oath to Preserve and Protect America

"I am reminded of the oath that you and I took, pledging to preserve, protect, and defend this country and constitution.

"We are at a crossroads in our history where, to uphold that oath, we must act to protect this economy. The truth is that our national security and our foreign policy are much like a 3-legged stool.

"One leg, of course, is the values we uphold as a country, and those values are very strong.

"The other leg is our military power. On that score, we are the only remaining superpower.

The American Economy

"But the third leg of our national security is the strength of our economy. And I must say that this third leg is fractured and weakened as a result of some five decades of American efforts to spread capitalism and democracy the world around. Certainly, we have succeeded.... The wall has fallen. Europe and the Pacific rim are robustly capitalist.

America's Textile Industry

"But, in the wake of the cold war, we look back and see key sectors of our economy that we sacrificed down through the years in order to advance our foreign policy objectives. America's textile industry has been depleted and devastated. More than two-thirds of the clothes worn in this Chamber today are imported; 86 percent of the shoes are imported.

"I recall testifying before the old International Tariff Commission back in the fifties when Tom Dewey ran me around the hearing room. We were fearful at that time that imports would soon account for 10 percent of the textiles consumed in

America. That was going to be a devastating prospect. Yet now imports account for two-thirds of our market.

"At the time they made a wonderful argument, which had a certain logic to it. They said, what do you expect the Third World, the emerging nations to produce? Let them make the garments. Let them make the shoes. And we will make the computers, the airplanes, the high-tech.

"Now, yes, I am fearful. Those former poor relations are now making the planes, the computers and the high-tech thanks to government subsidies and industrial policies. The majority of computers are now manufactured out in the Pacific rim, Japan, Taiwan, and elsewhere. Japan makes the best of automobiles at low cost.

"J.D. Powers did a study of 26 automobile manufacturers the world around. No. 6 in efficiency and productivity was the Ford plant down in Mexico.

"Certainly as a Governor three decades ago, I developed the techniques and training for bringing rural folks in off the farms and turning them into the most productive workers in the entire world. Today, amen, we have BMW coming to my home State, and I am proud of that. South Carolina has 100 German plants, and we have 45 Japanese plants, the blue chip corporations.

Plants and Factories Are Headed to Mexico

"But, yes, I am fearful for the future, because the plants and industries we brought to South Carolina over the last three decades are now heading to Mexico. The United Technologies auto parts plant in Bennettsville, SC, has closed, with its 420 jobs going to Mexico; Pratt & Reed, maker of Baldwin pianos in Liberty, SC, 450 jobs, gone to Mexico; Cummins Gear from Stuttgart, leaving Charleston now for Mexico. Rotron, the Japanese high-tech firm with a plant in Orangeburg, SC, has closed and moved its 260 jobs to Mexico. South Carolina textile jobs have also been lost to Mexico.

The Textile Industry Is Important to South Carolina

"I am proud of my State's textile industry. I don't accept the cavalier attitude of those who say that textile jobs are on their way to Mexico anyway, with or without NAFTA. South Carolina has 40,000 garment jobs. These jobs are very important to an under-employed family, with the husband working on a farm and his wife working in the textile plant. Together they hope to save enough money to send their kids to Clemson

The U.S. Is Repositioning for Bankruptcy

"The pro-NAFTA crowd dismisses those 40,000 jobs, saying we don't need them because we are repositioning for high technology. Nonsense. We are repositioning for bankruptcy. The high technology replacement jobs have already come and gone. They, too, are going to Mexico from South Carolina.

"Somehow, some way, we must grasp that the economic leg of our national security is directly threatened. We must protect it or see it further crippled. And do not dismiss me with the label protectionist. I am proud of my efforts to protect the textile industry. But my protectionism, is selective and based on common sense. I proudly voted for the free trade agreement with Canada because our two countries have a comparable standard of living, comparable economies and comparable political freedoms.

Unions in Mexico Are Controlled by the Government

"In contrast, down in Mexico you cannot belong to a free union movement. The unions are all controlled by the government. Mexico has no free press, and I speak here as a witness with first-hand experience.

"Just 3 weeks ago we had a hearing of the Commerce, Science, and Transportation Committee. We hooked up via satellite with NAFTA critics in Mexico. After we got about 30 minutes into the hearing, the powers that be in Mexico obviously did not like the testimony because they pulled the plug on our satellite transmission.

U.S. Links Up with Latin American Dictators

"The United States has a bad habit of latching onto Latin American strongmen. We threw in our lot with Samozá, in Nicaragua, with disastrous consequences. Now we are touting Salinas as a democrat and reformer. Well, let me tell you about Salinas not in the words of Senator HOLLINGS but in the words of the Economist:

"The ugly truth is that Mr. Salinas and his band of bright technocrats, admired though they are by the great and good of the international conference circuit, wield power courtesy of PRI fixers and worse in the countryside.'

"Let me quote also from Business Week:

"In their drive to modernize Mexico, Salinas and his planners command nearly every variable of the economy to smother inflation and preserve Mexico's huge labor cost gap with the United States and other producers. Salinas fixes salaries through a complex business-labor-management agreement known as El Pacto. He anoints and picks out labor union bosses and State governments alike. In short

Salinas and his number crunchers run a command economy much closer to the Asian model than any country in the West.'

"Fearful? Yes, indeed, I am fearful of NAFTA.

Mexico's Track Record

"If I were your lawyer and my client asked me about NAFTA, 'Lawyer HOLLINGS, what do you think?' I would say, 'Wait a minute. The terms of this contract might be very good indeed, but let us look at the track record of the party you are dealing with.'

"Performance is better than promise. Look at Mexico's dismal performance in suppressing a free press, free elections, free union movements, free markets. 'Oh, heavens, don't sign the contract....'

Twenty-Eight Journalists Killed in Mexico

"But, today, we are talking about Mexico and fear.

"The human rights report of our own Department of State documents that 28 journalists have been killed since Salinas took office in 1988. In one case a journalist was murdered who had been pledged protection by Salinas.

"Mexico does not have a free press. Nor does it have a free electoral process. As Morton Kondracke reported in Roll Call, the true victor in the Mexican election of 1988 was the opposition candidate Cardenas. But Salinas and the PRI brazenly stole the election from him. In the same manner, Salinas will hand pick his successor next year. The PRI will maintain its corrupt grip on power. The repression will continue. The torture will continue. The killings will continue. The market will continue to be controlled. Wages will be rigidly controlled.

"It is just amazing to hear pro-NAFTA advocates saying it will create jobs. Haven't they seen the advertisements urging United States firms to take advantage of \$1 per hour labor in Mexico. The advertisements crow, 'Yes, we can in the Yucatan. Yes, we can in the Yucatan. We can save you up to \$15,000 per worker as compared to what your labor costs are in the United States.'

The Mexican Government Is Deliberately Holding Wages Down

"It is obvious what the Mexican Government is prepared to do in order to promote economic development. They will hold wages artificially low and not enforce their environmental standards. But the fruits of this development will not be shared with the ordinary Mexican worker.

"So the United States, after devoting five decades to defeating communism and building democracy, at a time when we should insist on a tried and true Common Market arrangement with Mexico, instead we have this narrow NAFTA agreement which locks in the corrupt status quo in Mexico. It is a shame. And it comes at a most difficult time in our own history.

Millions of Americans Looking for Work

"Mr. President, we have 10 million Americans out this afternoon looking for work. When I read the newspaper endorsements of NAFTA, I am impressed by the fact that editorialists are not going to lose their jobs. The lobbyists, the consultants, the fixers, the Fortune 500 executives, they are not going to lose their jobs. As Representative Dave Bonior said, the Fortune 500 owners are safe, but the unfortunate 500,000 are going to lose their jobs. From the Fortune 500, 250,000 jobs were lost in the first 6 months of this year. Oh, it is nice to call this by the euphemism 'downsizing.' But the truth is those workers were fired. And the workers that remained are feeling downward pressure on their wages. Every day, another thousand are being let go.

"The pro-NAFTA people talk dismissively of fear as though it is some kind of psychological or emotional problem. It is indeed emotional. It is real. I can tell you that. This Senator has really been in a funk witnessing the fix being put in over on the House side, because we knew on the merits we had NAFTA whipped.

The White House Wheeled and Dealed to Pass NAFTA

"Let me congratulate the NAFTA opposition in the House of Representatives. Let me congratulate Dave Bonior in particular. He fought NAFTA on the merits. He did not have anything to give away. He did not have any bridges to offer, any peanut butter, restrictions, any special deals on citrus, sugar and so on.

"The White House was wheeling and dealing. They would give you anything. But without anything to give away, relying strictly on the common sense of the American people and the merits of their case, they came close to defeating NAFTA. They held the line because they knew NAFTA was not in the interest of the United States.

"So, yes, there is fear. We Senators love to go to graduations and tell the college graduates that the great future awaits them. But when they walk out the door they find there isn't any future for them. There are few good jobs for the next generation and the next leadership to come along.

The President Betrays the American Middle Class

"We have a President who said he was going to protect and build the middle class. But last night he acted to harm the middle class. As James Carville said, 'It's

the economy, stupid.' But last night, we heard from the pro-NAFTA people, 'It's foreign policy, stupid.'

"That is what is happening to us here in the Senate, too. They are sure they have a fixed jury over here on the Senate side. So do not worry about making deals here. Because it is easier to fix this crowd. The Senate has more candidates for President than anywhere else, and all those would-be candidates for President fall all over themselves identifying with the god of free trade.

"In describing the United States and the potential market in Mexico, bear in mind that our neighbor has a market only the size of Los Angeles. Their consumer market is tiny compared to ours.

Mexico's Exploding Work Force

"But their population is exploding, with 1 million teenagers entering the work force each year. Edward Luttwak says the true number is 2 million new workers a year. We knew the average age in Mexico is 15 years of age. But these people are by and large impoverished. They do not have sufficient income to be major consumers of U.S. goods.

"Incidentally, the official Mexican labor statistics list 12-year-olds among their unemployed. Mexico's unemployment statistics expressly include children 12 years or older who didn't have a job the week before the survey and were looking for employment. Child labor is a given....

The Maquiladora Programs

"In the 28 years since Lyndon Johnson began the maquiladora program, some 500,000 jobs have been created in Mexico. United States firms have built beautiful plants along the border, plants with green lawns and crisp flags flying. But all around the plants are miserable living conditions, with no paved streets, no plumbing, no running water, no toilet facilities and very little electricity. Several of the places I visited recently in Tijuana are hovels made from five garage doors put together to make a home. In one such hovel, the family had a little car battery on top of the TV.

"I asked, 'Why?'

"They say, 'Well, if we turn on the TV and the light at the same time the light goes out. So, in order to see my TV and still have a light on at night I have to put a car battery in here.'

"So this is the kind of pathetic living conditions that have been created by the Fortune 500 in the maquiladoras.

America Will Lose More Jobs to Mexico

"As executives at Cummins Gear told me when they left Charleston for Mexico, they said they did not want to go to Mexico but their competition was already there and they had no choice but to follow suit. With NAFTA, more and more companies will be forced to depart for Mexico, even those that would otherwise prefer to stay in the United States.

"Yes, let me plead guilty to being fearful because we are going to lose jobs. You can get into the statistical game of jobs won and lost under NAFTA. The studies showing job gains in the United States always assume constant growth, which is unrealistic. Consider the obvious. I do not know of any Mexican capitalist who is looking to build a plant in South Carolina. I know a lot of South Carolina industries that have gone down to Mexico. The jobs are heading south, not north.

"The delegation of South Carolina understands this, despite all the pro-NAFTA newspaper editorializing. Of the eight Members of the South Carolina delegation, seven of the eight are voting against NAFTA.

Pro-NAFTA Forces Using Deception

"Pro-NAFTA advocates have pelted us with deceptions with respect to jobs, with respect to growth, with respect to fear. We have heard the slogans: 'We chose to compete rather than retreat.' 'We have the most productive industrial workers in the world here in the United States.'

"We agree. We know that.

"What is not competing is the U.S. Government. We know our workers can compete. Milliken & Co. in South Carolina won the Baldrige Award for excellence 3 years ago. Our textile industry has won a slew of similar awards. We know about productivity.

"GE came to Florence, SC, where they make MRI's. They send over 55 percent of what their Florence production was to Tokyo. They have taken the market away from Toshiba. So do not tell me about competing and industrial workers. We are beating the Japanese.

"But we cannot compete on an unfair playing field. We cannot compete against prison labor in China, child labor in Mexico, controlled labor in Mexico.

Mexican Immigration Will Increase

"Another deception was with respect to immigration.

"We have the testimony of none other than Doris Meissner, the Administrator of the Immigration and Naturalization Service – INS. She attested earlier in the year – and they jumped all over her – but she repeated it on the House side more recently, that, as a result of NAFTA, Mexican immigration is going to continue to increase.

"Let me talk about the suppression of labor unions, because I saw it with my own eyes down in Tijuana.

"There was a plant down there that had moved from Santa Ana, CA. It makes plastic coat hangers. In that plant, if you miss 1 day you are docked 3 days. So in January, with the heavy rains they got docked 4 days and they did not like that. Then another worker got his eye put out. He was not provided with any protective glasses. He lost his eye.

"Then around late spring, a favorite supervisor, a woman expected a child, became ill. She went to the boss and said, 'Look, I have to rest.'

"They said, 'Oh, no. You continue to work.'

"And she had a miscarriage and lost her child. Well, that was too much. Men and women, workers together all said, 'We are going to get a union.'

"Do you know what, they discovered that their plant already had a union, the Government-controlled union. The workers did not know anything about it – but management did. They had the union for 3 years. They had never seen the union contact, never heard of him, never knew about it.

"Then they found out they were violating the law by trying to organize a new union in a shop that already had a union, albeit a government-controlled union, so they all got fired.

NAFTA Will Cause a Steady Stream of Immigration

"Those are the labor conditions. I told you about the hovels and squalor that they have down there. The average stay of a Mexican worker in the maquiladora plants is only 18 months. They learn a basic skill and don't want to stay there earning 80 cents an hour or \$1.50 an hour when they can go up the highway to Los Angeles and get \$7.50 an hour, plus education, safety protection, unemployment compensation and so on. This is exactly why NAFTA will spur a steady stream of Mexican immigration to the United States.

"Meanwhile, this Congress makes U.S.-based industries less competitive. We say they must have strict environmental controls, Social Security, health care, a safe working place and safe machinery, parental leave, plant-closing notice, and on

and on and on. These things all go into the cost of production. You do not have that in Mexico.

"So that is why the Mexicans take our plants away by promising the Fortune 500, 'Yes, you can in Yucatan.' Heavens above, you can save \$15,000 a worker. That is why the Mexican worker continues to emigrate to the United States. With 2 million coming into the work force each year, the jobs just aren't there. They would need at least 6 percent real growth for 20 years to keep up with this labor demand.

The Status of Agriculture Under NAFTA

"Then look at what will happen in agriculture under NAFTA. Experts project that Americas super-productive agribusiness will drive out of business a million small unproductive farms down in Mexico. This will add millions more to the ranks of Mexicans heading northward. So instead of solving the immigration problem, NAFTA would compound the immigration problem.

"I spoke to the distinguished ambassador for trade, the U.S. Trade Representative, the Honorable Mickey Kantor. I have the greatest respect for him individually. He has been my friend a long time. But I said: 'Ambassador Kantor, the administration claims on TV that the Japanese and the Europeans are against NAFTA because they fear they will be on the outside looking in. False. Under NAFTA, the Japanese and the Europeans are going to be on the inside – in Mexico – shipping in, to the United States market.'

The EC Is Going to Use Mexico as a Springboard into the American Market

"Yesterday evening, the European Community sent congratulations to the House of Representatives on the passing of NAFTA. The European Community is gung ho for NAFTA. Why? Because they plan to transform Mexico into a duty-free platform from which they will export into the richest market in the world. Heavens above. The Europeans are wild about NAFTA.

"I said to Ambassador Kantor, 'Here is the headline and story, "Bank of Tokyo Bullish on NAFTA".' I pointed out how Nissan is investing a billion bucks in Mexico, anticipatory not of the Mexican consumer market – Mexicans do not have enough money to buy a significant number of cars down there – but to try to export to the United States market. I pointed out that Volkswagen, too, is putting in a \$1 billion expansion in Mexico, anticipating a flood of exports duty-free into the American market.

"Finally, in addition to building the biggest yarn plant in all of Mexico, the People's Republic of China in September purchased 100,000 acres to develop an industrial park. China, too, is looking to use Mexico as a duty-free export platform into the United States.

Foreign Investment Pouring into Mexico

"So what NAFTA creates is not just a swooshing sound of jobs leaving; it is also a swooshing sound of investment pouring into Mexico. NAFTA is not a free trade agreement so much as it is the investment protection act. In the past, the Japanese and the Europeans have rebuffed Mexican invitations to invest. They had no interest. Why? Because the Mexicans have a reputation for being undependable. They seize the banks. The Japanese and Europeans said, 'You get NAFTA, you get that compulsory arbitration so we know we can get our money back out, you get that NAFTA with the United States, and, uh-huh, we're coming.'

Japan and the EC Will Use Mexico to Penetrate the U.S. Market

"So let's be done with this deception that, 'The Japanese and Europeans are against NAFTA because they will be on the outside looking in.' Nonsense. They are going to be on the inside shipping in.

"Look at chapter 11 of NAFTA. Mr. President. Chapter 11 is the investment protection act for the country of Mexico. I cannot get over this thing. Here we ought to be building a job-growth program for the United States of America. This Congress needs it badly. We do nothing to encourage the industrial worker in this country. That is why the Senator from South Carolina voted against the parental leave bill. That was an additional cost on U.S. businesses making them just that much less competitive.

"I must say that the deals that were cut to pass NAFTA in the House have made a mockery of fast track. Under fast track, we have limited time for debate and we cannot offer any amendments.

The White House Is Amending the NAFTA Agreement Every Ten Minutes

"But, Mr. President, in recent days the White House has effectively amended NAFTA approximately every 10 minutes. Go over there to the White House Office of Congressional Liaison. They might still have the office open where you can get an aircraft carrier, a bridge, a special deal for durum wheat, sugar, you name it.

"I am telling you, it is a wonderful bazaar. In fact, they had the unmitigated gall to put a tent out there and make it appear like a bazaar on the White House grounds. This was it. They said you need to change your vote, because we are amending the bill right and left, left and right.

The New NAFTA

"But the 535 Members of Congress, who under the Constitution have the responsibility for regulating commerce, we are not allowed to amend NAFTA one iota. Article I, section 8 of the Constitution says that the Congress of the United

States may regulate foreign commerce, not the President of the United States. Heavens above, we should not be restricted by a procedure whereby we cannot even put in an amendment. You would not recognize the new NAFTA with all the amendments and deals that have been cut in recent days. You cannot recognize the bill. If you asked them to integrate these deals in a finished document and send it over here, they would not get it over here before Thanksgiving. Just type up all the promises.

White House Uses Deception and Misrepresentation

"I hope the White House will do that. I hope they will come and show me, as I asked Ambassador Kantor, show me where the Japanese and the Europeans are opposed to NAFTA.

"They have not one iota of evidence about that, and they know it. But they keep coming up with these different deceptions and misrepresentations, and they mock us for being fearful. That is not a misrepresentation, because it is a studied and legitimate fear. They demean the labor movement.

"I recall that the United Auto Workers, over the history of 50 years, from Walter Reuther forward, has been on the side of every free trade agreement.

"Why is it that the UAW opposes this particular free trade agreement? Because they realize that 71,000 jobs from General Motors, the largest employer, have disappeared, and that GM does not plan any new plants in the United States. Chrysler is not planning any new plants here. Ford is not planning any new plants here in the United States. But Chrysler is going to make its Neon in Mexico and Ford is going to make its truck in Mexico, and they pat you on the back and say, 'Look, exports create jobs.'

"As the chairman of your Commerce Committee, I can tell you here and now that the CAFE standards are going to be compromised by NAFTA, as will safety standards. We had the hearing on its yesterday. The safety standards on trucks and the operation of vehicles are going to be compromised.

NAFTA Will Be A Catalyst for Jobs Moving to Mexico

"Do not give me the argument that United States firms are going to Mexico with or without NAFTA. NAFTA will be the catalyst for an exodus. United States, European and Asian firms are waiting on the Investment Protection Act known as NAFTA so that they can get the protection they now lack. Just at the time when we ought to be building up our economy, Mr. President, we really are going to be tearing it down and tearing down the middle class.

Free Trade Agreements Do Not Work

"I put in a bill, after listening to the witnesses and watching the European system grow and prosper, a bill to create the Common Market for the Americas. The Europeans tried EFTA, and European Free Trade Agreement, and it did not work. As Lester Thurow of MIT says, free trade agreements never work, but common markets do. Thurow argues that you must first build up social and political reforms to get economic stability, and this is what they did in southern Europe. They provided a development fund to boost the economies of Greece, Portugal and Spain, and they demanded democratic reforms. They encouraged the institutions of a free society and free market so they could have, as we say in law, a meeting of the minds.

Mexico Cannot Make a Free Trade Agreement

"Under the law, a child cannot make a contract. I can tell you now Mexico cannot make a free trade agreement. They have no free elections. They have no free market. They have no free judiciary. They have no free labor. They have no free press.

"And who is going to suffer? Not just the United States of America but the people of Mexico. Cardenas, from whom the presidential election was stolen back in 1988, favors the common market approach to build his country. He is a Mexican patriot and he has been berated because he dared to question NAFTA.

"But the truth is I talked to the city councilman in Tijuana, and he said he was opposed to NAFTA. I talked to the workers. I said, 'Aren't you all going to get these new jobs?' And they talked about how they were not getting anything out of new jobs, just a chance to get enough money to run up the highway to California and the United States to do better.

Under NAFTA the Rich Get Richer

"So NAFTA is really going to plant the seeds of violence down there, and discord, because the rich are going to get richer. Salinas has created 22 billionaires in the last 15 years. He has not privatized. He just divided up the public enterprises among his friends. Salinas raised \$750 million in political fundraising. That is what you are dealing with. Yet fewer than 10 percent of Mexicans have any significant purchasing power. That is equivalent to the population of Los Angeles. So don't expect an export boom to Mexico.

"NAFTA will benefit Mexico because it is like clearing the decks and saying soeey pig, every greedy violator of the environment and exploiter of labor, you all come on down because, yes, we can in the Yucatan." (*Congressional Record*, November 18, 1993, pp. S16622-S16627.)

The Need to Reform Mexico First

Senator MOYNIHAN. Mr. President, I ask unanimous consent to have printed in the RECORD an important and thoughtful article by our esteemed chairman of the Committee on Commerce, Science, and Transportation, Senator HOLLINGS, on foreign policy, entitled 'Reform Mexico First.'

"There being no objection, the article was ordered to be printed in the RECORD, as follows:

REFORM MEXICO FIRST

(By Ernest F. Hollings)

"The foundation of American foreign policy has been our steadfast commitment to freedom and democracy. With the fall of the Berlin Wall we should be doing everything in our power to nurture the development of genuinely democratic governments around the world. Yet supporters of the North American Free Trade Agreement (NAFTA) would lead us in the opposite direction. They ignore America's commitment to freedom and human rights by entering into a 'free trade agreement' that will principally benefit Mexico's ruling oligarchy. For the past 64 years, that oligarchy has systematically denied Mexican citizens free elections, free speech, basic civil liberties, and a genuinely free market.

"Instead of pursuing the previous administration's narrow economic agreement, President Bill Clinton should enunciate a broad vision for the Americas that encompasses not just economics and trade, but also political and social reform. As then deputy secretary of state Warren Christopher said more than a decade ago, 'Respect for human rights creates an atmosphere for stability in which business and investment can flourish.' Now, as never before, the benefits of a truly free market will be enjoyed only when the market is buttressed by strong democratic institutions.

"Previous American initiatives to boost democracy in Latin America fell short of their lofty goals. President Franklin Roosevelt's Good Neighbor Policy, President John Kennedy's Alliance for Progress, and President Ronald Reagan's Caribbean Basin Initiative all failed because our commitment to democratic and social reform never matched our rhetoric. Millions of dollars in aid money were squandered by corrupt regimes that were more interested in helping themselves than in raising living standards. For example, the United States embraced the Somoza oligarchy in Nicaragua and wound up with the evangelical Marxism of the Ortega brothers.

Mexico's Ruling Oligarchy Thwarting Democracy

"Today, we have a historic opportunity to foster democratic institutions and genuine economic development on our southern border. Our choice is clear: We can be a force for change to promote democracy and build a thriving middle class, or we can align ourselves with the ruling oligarchy that thwarts Mexicans' aspirations for representative democracy.

"In some 2,000 pages of NAFTA's text, the word 'democracy' does not appear. NAFTA only locks in Mexico's status quo. I propose an alternative approach that puts democracy first and rewards democratic progress with economic and trade privileges culminating in the creation of a Common Market for the Americas – a partnership whose membership is predicated upon a shared commitment to the basic principles of a democratic society: free elections, free speech, free press, and free markets.

Corruption in Mexico

"Throughout Mexico's history, a number of leaders have promised to wipe out corruption and reform politics. Even Porfirio Diaz, Mexico's turn-of-the-century dictator, arranged electoral charades to create the illusion of democracy. While the current president, Carlos Salinas de Gortari, has instituted substantial reforms, he has been careful not to challenge the power structure.

"Today, U.S. editorial writers hail Salinas and his American-educated technocrats as valiant reformers who have cleaned up a corrupt political system and overhauled an inefficient statist economic system. In truth, however, the 'new' Mexico is strikingly like the old. Most of the political reforms undertaken by the Salinas administration are nothing more than window dressing designed to mollify NAFTA's U.S. critics. As the Salinas era ends, a careful examination of the record shows that actual political reforms have been modest and largely cosmetic. Human rights violations, electoral fraud, and corruption remain endemic. In the September/October 1993 Foreign Affairs, Professor Jorge Castaneda wrote:

"Mexico's underlying problems persist. It retains a largely corrupt and unchallenged state that possesses only the merest trappings of the rule of law. The enduring obstacles to Mexico's modernization – its repeated failure to transfer power democratically or to remedy the ancestral injustice of its society – remain and will require Mexico to continue to change itself, with or without a trade accord.'

Elite Oligarchy Yields Power through the PRI

"Even the Economist acknowledges, 'The ugly truth is that Mr. Salinas and his band of bright technocrats, adored though they are by the great and good on the

international conference circuit, wield power courtesy of PRI (Institutional Revolutionary Party) fixers and worse in the countryside.'

"While former U.S. presidents and secretaries of state praise Mexico's reforms, the State Department's 1992 annual report on human rights paints a starkly different picture. It details the Mexican government's complicity in electoral fraud, torture, politically motivated murders, suppression of independent labor unions, and systematic control of the news media. 'To maintain power, the PRI has relied on extensive public patronage, the use of government and party organizational resources, and, according to respected independent observers, electoral fraud,' the State Department report said.

"Mexico's 'reforms' are nothing new. Our neighbor has a long history of passing progressive legislation on labor and human rights and of signing international agreements that ostensibly guarantee those rights. Mexico also has a long history of failing to live up to such agreements.

Electoral Reform in Mexico

"In 1990, with great fanfare, Salinas presented a new Federal Code of Electoral Procedures and Institutions and established a Federal Electoral Institute. Those electoral reforms seemed dramatic. But in reality they are only designed to legitimize the status quo while creating a facade of fairness. The new Electoral Institute is not independent; instead, it is stacked with members of the ruling party. In addition, the final arbiter of elections is the minister of government – the Mexican official charged with maintaining domestic order. That position is currently held by Patrocinio Gonzales Garrido, former governor of the state of Chiapas. It is widely recognized that his term as governor was marked by widespread electoral fraud and the imprisonment of Indians, teachers, and Catholic priests who dared to challenge the ruling party.

Fraud and Deceit

"Despite electoral reforms, Mexican elections continue to be exercises in deceit. As recently as 1992, gubernatorial elections in Michoacan were marked by widespread fraud and the PRI candidate was forced to step down, only to be replaced by another hand-picked candidate.

"This winter, the fraud will continue. Like the PRI's rulers before him, Salinas will engage in the Byzantine ritual of tapping his successor – a process appropriate for a Yale secret society, not a representative democracy. The state then will throw its tremendous financial and media resources behind the anointed successor, who, in all likelihood, will be another figurehead for Mexico's elite.

Human Rights Abuses

"The State Department's human rights report notes that 'several political and human rights activists were killed in 1992,' and that 'there continue to be cases of extrajudicial killing by police.' Although Mexico has established an independent commission on human rights, the report states that many of its recommendations 'have been implemented only partially.'

Fraud and Deceit

"According to the State report, other human rights abuses committed by the Mexican government include torture – 'the most commonly used methods * * * include threats, beatings, asphyxiation, and electric shock' – and frequent 'incidents of arbitrary arrest and imprisonment.' In 1992, the United Nations Committee Against Torture strongly criticized Mexico's use of torture.

Elites Control the Media

"Mexico's ruling party also maintains power by tightly controlling access to the public news media. Until August 1993, one of Mexico's two principal television networks was owned by the government. The other network was safely controlled by one of the PRI's top fundraisers, Emilio Azcarraga Milmo. The Mexican government sold its network to Ricardo Salinas Pliego, who will continue its pro-government and pro-PRI slant. In fact, after gaining control of the network, Salinas Pliego frankly stated that he will have to continue its pro-government programming because Mexico is not yet ready for democracy. Although Mexico does have independent newspapers and magazines that give the appearance of a free press, the State Department reports 'significant restrictions on these freedoms.'

THE PERFECT DICTATORSHIP

"Perhaps Peruvian writer Mario Vargas Llosa offered the best description of the Mexican political system: the 'perfect dictatorship.' Vargas Llosa said that it is 'the permanence of a Party, not of a man, a Party that is unmovable, a Party that gives enough space to criticism, as long as it serves its interests, because in this way it shows that it is a democratic party; but suppresses by any means...the criticism that somehow endangers its permanence.'

One Party Rule

"A fundamental question that has never been addressed is whether Mexico's tradition of authoritarian, one-party rule is compatible with the American form of democratic capitalism. Senate Finance Committee chairman Daniel Patrick Moynihan has succinctly framed the debate on NAFTA: 'We are still being asked to approve a free trade agreement with a country that isn't free.'

"NAFTA's proponents argue that it will raise living standards and gradually harmonize wages and working conditions. Commentators are quick to praise the dramatic economic reforms that have transformed the Mexican economy. A recent column in Financial World proclaims:

"Over the past several years Salinas has moved with great domestic risk toward opening what once was one of the world's most protected, corrupt and government-controlled economies. Should NAFTA fail – or die a slow death as the U.S. equivocates – Salinas's efforts would be discredited and the old order could return.'

Elite Group Exercises All Power

"The obvious flaw in that argument is that the old order has not been swept away; a tightly knit group still exercises political and economic power.

"Augustin Legoretta, a prominent businessman and former president of Banamex (one of the leading banks in Mexico), provided this candid assessment of how the Mexican economy operates: A 'very comfortable little group of 300 people make all the economically important decisions in Mexico.' That comfortable group has acquiesced in the government's decision to tear down the 'Gringo Go Home' sign and open their country to foreign investment by offering a low-wage, high-productivity platform for export into the United States. In return for supporting Salinas' economic reforms, Mexico's corporate elite have enjoyed a financial bonanza. Mexico's high-flying stock market, the Bolsa de Valores, has created paper millionaires and even billionaires. Before Salinas took office, Forbes listed one Mexican in its list of billionaires; five years later there are thirteen. Not surprisingly, the Salinas administration's ambitious privatization policy has rewarded many of the president's closest political associates: Carlos Slim Helu, a financier and PRI fundraiser who won control of the telephone company Telmex and one of the state-run banks; Pablo Brener, another PRI fundraiser who was awarded Mexicana Airlines; and Jorge Larrea, a close friend who now owns the immense Cananea copper mine.

Mexico's Privatization Programs

"Questions have arisen over Mexico's privatization programs, including whether a truly competitive system of open bidding exists. In addition, U.S. companies are allowed to own only minority interests in those companies. Mexican NAFTA negotiators have been careful to protect the powerful interests that have benefited from the privatization. For example, if NAFTA passes, the Mexican conglomerate Vitro, a world-class maker of flat glass, would benefit from a 10-year phase-out of the tariff on flat glass while the U.S., as is the case now, would levy no tariff at all. Similarly, the recently privatized banking system will benefit from 10 years of protection, and U.S. banks will be strictly limited to a small percentage of the Mexican market. The PRI held an intimate – and expensive – dinner party for Mexico's top financiers, with guests pledging \$25 million (more

than 75 million pesos) each to the ruling party. Television baron Azcarraga even proclaimed that he would be willing to pledge three times that amount because he has prospered so handsomely under Salinas. While the proponents of NAFTA praise the 'free market' reforms in Mexico, in reality Mexico pursues a development model that leaves very little to the magic of the marketplace.

A Common Economy

"As Business Week explained in a cover story:

"In their drive to modernize Mexico, Salinas and his planners command nearly every variable of the economy. To smother inflation and preserve Mexico's huge labor cost gap with U.S. and other producers, Salinas fixes salaries through a complex business labor agreement that's known as el pacto. He anoints – and boots out – labor union bosses and state governors alike.... In short, Salinas and his number-crunchers run a near-command economy, much closer to the Asian model than any country in the West.'

"Despite the international accolades, Mexico's growth has averaged only 2.8 percent for the past six years. During the dark days of import substitution, Mexico's gross domestic product (GDP) grew by more than 6 percent. However, much of the current growth is the result of flight capital drawn back by high interest rates.

The Elite 300 Reap Huge Financial Rewards

"The 'elite 300' have reaped huge rewards from privatization. Unfortunately, much of their wealth has come at the expense of the Mexican worker. The World Bank noted that Mexico's 1992 per capita GDP was 5 percent below the 1980 level. Mexican workers' wages buy less than half of what they did in the early 1980s. In a country that already suffers from one of the worst income distributions in the Western Hemisphere, Mexico's development path has exacerbated the gap between rich and poor. Over the last decade, the richest 10 percent of the population saw its shares of the national wealth increase by 15 percent; meanwhile, 25 percent of Mexico's tiny middle class fell into the ranks of the poor. Half of the people still lack electricity or running water; the state of Yucatan advertises labor for 'under \$1 an hour, including benefits'; and children as young as 12 are included in official Mexican labor statistics.

CHEAP LABOR

"To provide foreign investors with a pliant work force, the government has actively intervened to thwart the formation of independent trade unions. After a renegade labor leader led a successful strike at a maquiladora plant near the U.S.-Mexican border, the Mexican government promptly arrested him. When workers at a Ford plant sought to replace their local's leadership, gunmen from the national

labor federation attacked strikers, killing one and wounding thirty. Smashing independent unions and freezing wages at Third World levels is not consistent with the stated goals of the economic opening, which in theory raises living standards. As Business Week noted, the irony of the Salinas era is that 'many Mexican workers still can't afford to buy the products that they turn out.'

"Advocates of NAFTA believe the agreement will not spur the flight of jobs south of the border. They argue that NAFTA would boost U.S. exports to Mexico and thereby increase jobs in the United States. To support that claim, they point to our trade surplus with Mexico. Since Mexico opened its economy to U.S. exports, the American trade deficit has been replaced by a \$5.4 billion surplus. Under Salinas, Mexico's trade picture has significantly deteriorated. In 1993, Mexico's overall trade deficit will balloon to an estimated \$22 billion. Consumer demand, however, accounts for only a small portion of our trade with Mexico. According to Mexican trade statistics, 52 percent of U.S. exports never enter the Mexican market. Unlike U.S. figures, Mexican statistics include parts destined for 'free trade zones' in Mexico's interior. They are simply parts shipped to gleaming U.S.-owned factories for assembly and reshipment to the United States.

Mexico's Deficit

"This is how the Brookings Institution's Nora Lustig explains Mexico's current account deficit:

"The upsurge in imports is in part a response to the expansion of productive capacity in anticipation of Mexico's positive outlook.... The current large imbalance in the trade account may well be a one-time phenomenon in the sense that it is the result of the modernization of the productive plant that will soon render its fruits in the form of higher net exports.'

"U.S. trade data shows that the majority of U.S. exports fall into two categories: capital goods and industrial supplies. U.S. Trade Representative Mickey Kantor points with pride to the fact that the fastest growing segment of U.S. exports to Mexico is consumer goods. A close examination shows that they are growing from a small base and still account for a smaller overall percentage of exports to Mexico than industrial goods. With an average per capita income of about \$3,000-5 percent below Mexico's 1980 level – and one of the Western Hemisphere's worst income distributions, Mexico may need decades to become a significant market for consumer goods.

NAFTA Will Pull Jobs and Companies into Mexico

"The much-ballyhooed 'giant sucking sound' of American jobs going to Mexico because of NAFTA will be heard loud and clear in another incarnation. NAFTA will suck foreign companies into Mexico so they can win cheap, duty-free entry into the U.S. market. For years, Asian investors, particularly Japanese burned by

Mexico's debt crisis, have been reluctant to invest in Mexico without adequate protection. NAFTA will provide that protection, which is why Nikkei Weekly notes that the Bank of Tokyo is Bullish' on Mexico. And that is why Volkswagen executives boast they will use Mexico as their launching pad into the U.S. market. But European and Japanese companies are not alone. The Korean government is providing tax incentives for companies that open plants in Mexico. Even China's communist government-owned textile company is opening a yarn-spinning operation in Mexico.

Economic Integration Will Cause a Change for the Worse

"NAFTA supporters argue that our two economies are already being integrated. That is true, and it offers an unprecedented opportunity to encourage genuine political and economic reforms in Mexico. But NAFTA proponents have never advocated using the process to encourage fundamental change in Mexican society. Instead, the only type of transformation NAFTA is likely to cause is change for the worse. Hundreds of thousands of unemployed of American workers have discovered that 'highly skilled \$18 an hour manufacturing jobs in the U.S. would be as vulnerable as less skilled \$6 an hour occupations,' as labor economist Harley Shaiken reported in a 1993 study.

"Further, the administration and some members of Congress believe that tacking on hastily arranged side agreements on labor and the environment will correct an approach to hemispheric integration that would lock in Mexico's status as a low-wage export platform. But ill-conceived side agreements cannot rectify a pact based on a flawed premise. No side agreement can adequately redress the tremendous disparity between our economies. Nor will side agreements improve enforcement of labor laws or environmental regulations.

"Mexico has adopted tough laws to protect labor and the environment, but its commitment to enforcement is inadequate. While the Mexican constitution provides impressive guarantees for independent labor unions, it is widely known that the PRI controls labor bosses. In addition, a 1992 U.S. General Accounting Office report found that none of the American-owned plants it surveyed in Mexico had prepared the environmental-impact appraisals required by Mexican law. The press has also documented the environmental disaster on the Mexican side of the border.

"Finally, while NAFTA does not address immigration, the treaty's proponents proclaim that it will slow the wave of immigrants across the border. They argue that as new factories open in Mexico and jobs are created, immigration will ease because workers will choose to stay home. That prediction, however, is not borne out by recent history or demographics. The explosion of maquiladora plants along the Mexican border has only served as a training ground and springboard for Mexicans eager to flee squalor. Maquiladoras suffer tremendous turnover – at one

maquiladora in 1988, workers typically stayed only six months before going back home or seeking higher wages in the United States. Moreover, Mexico's economy will have to grow more than 6 percent annually to accommodate the 1 million new workers that enter the work force each year and the hundreds of thousands of agricultural workers that will be displaced by the opening of Mexico's agricultural market. Since only rosy scenarios predict that the Mexican economy will grow by 6 percent a year, Mexico's surplus workers will likely head north.

Suppression of Mexican Wages

"If we rush to pass a NAFTA that sanctions a program of economic development based on the suppression of wages and living standards, we will be sowing seeds of discontent among the Mexican masses. Rather than building a stable economic partner, we will be creating conditions for civil unrest. Indeed, the classic prescription for such turmoil is an entrenched, aloof leadership that raises the expectations of its populace. When the expectations are not met, civil order breaks down.

Labor Will Continue to be Exploited in Mexico

"As the PRI pursues a policy that beats down wages while demanding increases in productivity, the basic needs of the work force will go unfulfilled. Without democratic institutions to serve as a check against arbitrary power, Mexico will remain a haven for the exploitation of labor and the environment.

"Instead of rushing pell-mell to integrate an underdeveloped economy with a developed economy, the United States should follow the example set by the European Community. The Community's decision to integrate Greece, Spain, and Portugal followed several years of intense negotiations. As a precondition of admission to the Community, those countries had to adopt significant economic reforms. Indeed, the European commissions' opinion on the application of Spain and Portugal states, 'The principles of pluralist democracy and respect for human rights form part of the common heritage of the peoples of the States brought together in the European Communities and therefore constitute essential elements of memberships.'

"The integration of Portugal and Spain involved a significant transfer of resources from the Community's developed regions. After the accession of those two states, outlays from the European Regional Development Fund and the European Social Fund roughly doubled, exceeding \$5.4 billion a year. That money was used to assist both regions and individuals across Europe who might be harmed by each stage of trade liberalization. Funds from those organizations also helped stimulate investment and the development of infrastructure in these countries. The United States should adopt a similar policy for Mexico.

A Common Market for the Americas

"A common market for the Americas would require the countries of North America to enter into a social compact to establish minimum standards for labor rights and environmental protection as well as to protect the individual liberties that are the foundation of a democracy. A common market for the Americas, with a common external tariff, could be an effective vehicle for competing with the emerging trade blocs in Europe and Asia.

"Before admitting Mexico – and, later, countries in Central and Latin America – the gross disparity in income levels must be addressed. To narrow the development gap, a fund similar to the European Regional Development Fund and the European Social Fund should be established. The proceeds from it would be used to upgrade Mexico's antiquated infrastructure and to clean up the environmental mess along the border.

"Other development projects could be financed by swapping existing Mexican debt for development bonds backed by U.S. Treasury notes. In addition, the United States should expand debt relief proposals. Latin America's crushing debt burden is still a significant impediment to sustainable and equitable growth. Previous attempts at debt relief for Mexico failed to make a significant dent. Even after implementation of the Brady Plan, about 23 percent of Mexico's export revenues are devoted to internal and external debt service. Thus, revenue generated by Mexico's outward-looking economic policy is flowing out of the country rather than being used to raise living standards in Mexico.

"The integration of countries with such disparate levels of development will also require close coordination of macroeconomic and investment policies. Finance ministers should establish investment guidelines to prevent the wholesale de-industrialization of the developed areas of the common market for the Americas. In addition, exchange rate policy should be coordinated to prevent competitive devaluations that would depress wages and destabilize current accounts.

Admission to the Common Market Would Require Significant Reforms

"Finally, entry into the common market must be predicated on the adoption of real democratic reforms that produce free and fair elections. Only after Mexico becomes a functioning democracy will the gap in income levels and wage rates narrow. Once that is accomplished, Mexico, the United States, and Canada should proceed with wholesale elimination of tariff and nontariff barriers.

A Vision for the Americas

"More than 30 years ago, another young, vigorous president offered the Americas a vision of shared destiny, but one that addressed both economic and social-political change. John Kennedy wrote:

"No program which is restricted to the technicalities of economic development can fully answer the needs of the Americas. Only an approach to economic progress and social justice which is based on a wide acceptance of the fundamental ideals of political democracy and human dignity can hope to conquer the many ills of our hemisphere and respond fully to the aspirations of our people.'

"After decades of ignoring the calls for reform, the United States should now align itself with forces of change and renew its common commitment to economic and social progress. If we do not promote real democratic change in Latin America and champion economic growth at home, the United States could realize Harvard economist Richard Freeman's fear: 'to become a class society like those in Latin America.' NAFTA will head us down that path." (*Congressional Record*, November 18, 1993, pp. S16050-S16053.)

[From the Nation, June 14, 1993]

BIG \$\$\$ LOBBYING IN WASHINGTON – CAN MEXICO

AND BIG BUSINESS USA BUY NAFTA?

(By Charles Lewis and Margaret Ebrahim)

"In the summer of 1992 a Congressional aide boarded a plane at Washington's National Airport with some of her colleagues and flew down to Mexico City. Donsia Strong, a staffer with Representative John Bryant, a Texas Democrat, had been invited to take an all-expenses-paid fact-finding trip to Mexico to learn more about the North American Free Trade Agreement (NAFTA).

"Her visit was arranged and paid for by a Mexican organization called the Coordinating Council for Export Business (COECE), which was created in 1990 to promote NAFTA and which works closely with the Mexican government. Strong's trip was one small part of a massive lobbying crusade waged by the Mexican government and Mexican corporations on behalf of NAFTA, which its supporters claim will create widespread prosperity and a free-trade zone linking the United States, Mexico and Canada. Opponents of the pact, including labor, consumer and environmental groups in this country and Mexico, contend that NAFTA will spur corporate flight to Mexico, hemorrhage jobs from the United States and undermine environmental, health and workplace safety regulations.

"There was nothing illegal about Strong's trip – or for that matter in having a foreign business organization finance it. That's the way things are done in Washington, where lobbyists – legislative mercenaries – routinely rig debates for big-bucks clients. (Incidentally, Strong now works in Bill Clinton's White House; one of her areas of responsibility is preparing legislation to reform lobbying.) Strong was not the only U.S. government official to make a trip south of the border at Mexican expense. In the past two years, Mexican business interests have paid

for so-called fact-finding trips by dozens of Congressional staff members, a handful of legislators and one governor. And this has been merely one tactic employed by Mexican corporate and government interests to influence policy-makers in Washington.

NAFTA Has Been Promoted Since 1989

"The debate over NAFTA, which will climax this fall when both the Senate and the House vote on the treaty, has yielded the most extensive – and expensive – foreign lobbying campaign on a specific issue ever seen in the capital. Since 1989 the Mexican government and business groups have spent at least \$25 million to promote the development and enactment of NAFTA, hiring a phalanx of Washington law firms, lobbyists, public relations companies and consultants. That figure is conservative because it represents only the total that was reported to the Justice Department by Mexico and its hired guns.

"To comprehend the magnitude of this effort, consider the costs of the three largest, most notorious foreign lobbying campaigns waged in Washington in the past quarter-century. In 1990 Hill and Knowlton was paid \$10 million by the Kuwaiti government to persuade the American people of the need for U.S. military intervention in the Persian Gulf. In 1987, after the media disclosed that a Japanese company had illegally exported high-tech equipment to the Soviet Union, Japanese corporate interests initiated a major lobbying drive to prevent legislative retaliation. Up to \$9 million was lavished on that campaign. And in the late 1970s, in the scandal that became known as 'Koreagate,' South Korean rice broker Tongsun Park acknowledged that he had distributed gifts and cash to thirty-one members of Congress from 1967 to 1977. Three Congressmen were officially reprimanded by the House of Representatives, and one was convicted of conspiracy to defraud the government. The value of Park's payments and gifts totaled roughly \$850,000. Mexico's pro-NAFTA expenditures have already exceeded the combined resources of these three lobbying campaigns.

Millions Spent on Lobbying in Washington, D.C.

"Hermann von Bertrab, a Mexican businessman who was enlisted by President Carlos Salinas de Gortari to be director of Mexico's Washington NAFTA office, acknowledges that the Mexican government alone will spend roughly \$10 million on NAFTA-related activities in 1993 and that it spent about \$18 million for 1991 and 1992. But he insists that only a small portion of this money goes to lobbying. This is a common refrain of lobbyists when they describe their Washington operations. The trick is to define lobbying rather narrowly, excluding public relations, propaganda (called 'education'), political intelligence and strategy development – all key aspects of lobbying.

"The Mexican government and Mexican corporate interests have used much of those millions to purchase the expensive services of a potpourri of inside-the-

Beltway specialists. Former U.S. government officials, who know how to massage the Washington political system, have been snatched up and placed on Mexico's payrolls. Indeed, since 1989 Mexican interests have hired thirty-three former U.S. officials who worked for a variety of government entities: Congress, the State Department, the Treasury Department, the Office of the U.S. Trade Representative and others. Their mission is to influence the political process for what is arguably the most significant trade issue to have faced the American people and their elected representatives in this century.

"Why is the passage of NAFTA so important to Mexico" Because its government and corporations expect that a freshet of desperately needed U.S. investment and consumer dollars will flow into their country once the trade barriers between the two nations fall. A few million dollars is a small price to pay for what they hope will be a multibillion-dollar bonanza.

U.S. Businesses Spending Millions of Dollars to Promote NAFTA

"U.S. corporations that favor NAFTA – mainly companies eager to gain access to the labor and consumer markets south of the border – have mounted their own lobbying effort. Although there are practically no disclosure records now available to document expenditures, U.S. business interests are clearly spending millions of dollars. Large companies like Eastman Kodak, American Express and General Electric are members of an umbrella organization called USA*NAFTA that is waging a national campaign, and have hired the Wexler Group, the firm headed by superlobbyist Annie Wexler, the former Carter White House aide. The U.S. corporate effort works in close coordination with the Mexican government; one top Mexican official in Washington conducts liaison with the U.S. companies campaigning for NAFTA. Canada is more than adequately represented in Washington, but it has not been particularly aggressive in its lobbying for NAFTA. Canada, of course, already has a free trade agreement with the United States.

"All this intensive lobbying by U.S. and Mexican interests is dedicated to drowning out any contrary or questioning voices in the United States. It is focused like a laser on the Washington power elite and aims to see that a treaty is approved that favors corporate interests.

The Most Powerful Lobbying Effort in American History

"This is a David and Goliath fight,' notes Pat Choate, a leading expert on foreign lobbying in Washington. 'One side has money and the other doesn't. What you've got here is a lobbying blitzkrieg [by Mexico and by U.S. and Mexican corporations]. They are able to bring to bear the presence of the President of Mexico, the Cabinet of Mexico, the Ambassador from Mexico. They have the major think tanks, the Council on Foreign Relations, the International Institute of Economics, the Council of the Americas, full access to the editorial boards and pages of the major and regional newspapers in this country. They are utilizing the

full lobbying resources of the Business Roundtable, the National Association of Manufacturers, the Chamber of Commerce and the 100 largest industrial corporations in the United States. In addition to that, they've hired as lobbyists on retainer every leading trade expert in this country. Finally, anyone who opposes NAFTA is described as a racist, a xenophobe or someone who is ignorant of economics.'

The World Is Dividing into Trade Blocs

"When Mexican President Salinas took office in December 1988, he was not enthusiastic about knocking down trade walls between his country and the economic behemoth to the north. But the views of this Harvard-educated economist changed. In early 1990, Salinas and several top ministers visited Europe and discovered that the Western Europeans were primarily interested in investment, trade and aid opportunities in the Eastern European nations breaking free of the Soviet Union. Salinas concluded that the world was dividing into trade blocs. He did not want to see Mexico left out. The only choice, he decided, was fuller economic integration with the United States.

"While Salinas was contemplating the economic future of his country, officials in George Bush's State Department and National Security Council were kicking about various trade proposals, including extending the U.S.-Canada Free Trade Agreement, signed in 1988, into a wider pact that would include Mexico. Eventually, Salinas let Washington know he was thinking along the same lines. In June 1991, the three nations opened talks on a trilateral agreement. A year and a half later, the pact – drawn up under conditions of unprecedented secrecy – was signed by Salinas, George Bush and Canadian Prime Minister Brian Mulroney at a ceremony in Washington.

Mexico Buys the Best Lobbyist in Washington, D.C.

"Once Mexico was committed to a treaty, it wasted little time in lining up influential Americans who could grease the wheels of Washington. In September 1990, Mark Anderson, the A.F.L.-C.I.O.'s veteran international trade analyst, received a telephone call at his Washington office from a Mexican Embassy official, asking whether he was willing to meet with Herminio Blanco, who would soon become Mexico's chief trade negotiator on NAFTA. Anderson agreed, and over breakfast at the Ritz Carlton Hotel, Blanco spoke of Mexico's keen interest in NAFTA, and the Mexican government's desire to make NAFTA a reality in Washington. Blanco told Anderson he was 'in town lobbyist shopping.' By any standard, the shopping became a spree.

"In 1990 and early 1991, Mexico was confronted by a daunting task: figuring out where to apply influence so that the U.S. political system would work in its favor. According to von Bertrab, Mexico's NAFTA liaison in Washington, at the start of its pro-NAFTA drive Mexican officials realized they had very little

experience and knowledge about the inner workings of the United States. 'We really did not have a clue,' he says. But clues could be bought very easily. There was another problem, though: the general perception of Mexico in the United States. The Salinas government hoped to change the view of Mexico as a low-wage, socially troubled, environmentally polluted country that exports illegal aliens to the United States.

Preparing for a Massive Public Relations Program

"The Mexican government, through its Ministry of Commerce and Industrial Development (SECOFI), opened a Washington office separate from its embassy and hired a number of well-connected Washington law, P.R. and lobbying firms. Their overlapping missions were influencing legislators, recasting Mexico's public image in the United States, establishing 'grass roots' support for NAFTA in the fifty states, gauging actual U.S. negotiating strategy. In a short period of time, Mexico was wired.

"Von Bertrab speaks almost daily with Jorge Montano, Mexico's Ambassador to the United States, and Jaime Serra Puche, who is in charge of SECOFI in Mexico. On most Fridays, von Bertrab meets with SECOFI's chief lobbyists working Capitol Hill. A larger group of consultants and analysts working for Mexico, NAFTA 'allies,' also meets at his office about once a week.

Mexico Set Up on Intelligence Operation

"Von Bertrab also has his own intelligence-gathering system. Every week Stephen Lande, a former Assistant U.S. Trade Representative who now works for the consulting firm Manchester Trade, sends von Bertrab papers on specific NAFTA trade issues and strategy. One of von Bertrab's key aides maintains regular contact with Gail Harrison of the Wexler Group, which effectively runs USA*NAFTA, the umbrella organization of U.S. corporations supporting the agreement. Another source is Sandra Masur, director of international trade policy for Eastman Kodak, which has a substantial presence in Mexico. Kodak is deeply involved in the so-called grass-roots effort to promote NAFTA.

"Mexico's NAFTA office retained the P.R. firm Burson-Marsteller – which has handled such clients as Shell Chemical Company, Saudi Basic Industries, Salomon Brothers and Bethlehem Steel – to sell the image of a 'new Mexico.' The flacks at Burson-Marsteller hope to promote Mexico as a modern, industrializing nation with a technically capable work force. As part of the general outreach strategy, SECOFI has hired at least three prominent Hispanic Americans: former State Department Chief of Protocol Abelardo Valdez, former New Mexico governor Toney Anaya and former Navy Secretary Edward Hidalgo. Von Bertrab's operation even boasts a staff member who handles liaison with U.S. environmental groups and high-tech environmental companies.

"Burson-Marsteller, which has been paid almost \$5.4 million fees and expenses since October 1990 by SECOFI, took several other steps to refurbish its client's image. For example, the firm produced thousands of rosy brochures titled 'Partners in Trade' and 'Protecting the Environment.' These brochures were distributed to government agencies, U.S. legislators and numerous pro-NAFTA organizations, including the Heritage Foundation, the U.S. Chamber of Commerce and many others. The Office of the President of Mexico – as opposed to SECOFI – paid Burson over \$1.5 million in fees and expenses to create television and newspaper ads that promote Mexico's supposedly tough efforts to combat drug trafficking. For its account on NAFTA, Burson-Marsteller established a speakers bureau, monitored media coverage of the trade issue and produced speeches. Burson has also funneled monthly retainer fees to two lobbying firms working for SECOFI: the Brock Group (\$300,000) and Gold and Liebengood (\$27,000).

Washington, D.C.'s Famous Revolving Door

"Playing first violin in Maestro von Bertrab's Washington revolving door between government and the private sector. After working on trade policy for the government in the late 1970s, in the 1980s he and his firm made hundreds of thousands of dollars as Canada's lead counsel during negotiations of the U.S.-Canada Free Trade Agreement. Since 1991 SECOFI has paid more than \$5 million in fees and expenses to Shearman & Sterling for help in negotiating and passing NAFTA, according to documents the firm has filed with the Justice Department under the Foreign Agent Registration Act. What Justice records do not reveal is that Shearman & Sterling has actively tracked members of Congress and their views on NAFTA, targeting those who are on the fence and then lobbying them. For example, this past February 24, one of the firm's representatives attended a private breakfast held by the U.S. Council of the Mexico-U.S. Business Committee at the National Democratic Club to persuade new legislators to support the treaty. It has contacted governors, state and city officials, and state economic development and commerce departments to determine local sentiment toward NAFTA. The firm forwards this intelligence to Mexico's NAFTA office in Washington. Then von Bertrab dispatches one or more of his many lobbyists to work on the appropriate state or local official.

"Assisting Herzstein at Shearman & Sterling are longtime lobbyist Anita Epstein and political analyst David Parkhurst. Ironically, Parkhurst served on the presidential campaign of Ross Perot – a prominent opponent of NAFTA – and he was responsible for research and Perot position papers on foreign lobbying reform.

"Mexico is not counting solely on Herzstein's influence-peddling acumen. In its pockets are many other high-powered revolving-door lobbyists, including Bill Brock, whom some people in Washington tout as the 'father' of NAFTA. In 1982, as U.S. Trade Representative, Brock initiated official talks with Mexico on a

bilateral free-trade agreement. Nine years later, as a private consultant on Mexico's payroll, he was helping the Bush Administration enact NAFTA.

The Brock Group

"His counseling firm, The Brock Group, is a good buy for Mexico. Since 1991, it has been assisting Burson-Marsteller and providing Mexico's NAFTA office what it calls (in documents filed with the Justice Department) 'strategic counseling on trade, labor and political policy issues.' The Brock Group has been contacting key players on the Hill, in the White House and at federal agencies. Brock personally discussed NAFTA with Senate minority leader Bob Dole and former Representative Donald Pease. The Brock Group is loaded with other former officials with trade experience who are working on the Mexican account: James Frierson, former chief of staff for U.S. Trade Representative Clayton Yeutter, and Otto Reich, former Ambassador to Venezuela. Reich, for one, knows how to skew a public debate. In the mid-1980s, he headed the State Department's Latin American Office of Public Diplomacy, which disseminated disinformation and propaganda to discredit the Sandinistas of Nicaragua and U.S. journalists reporting on the contra war.

"Brock is one of those Washington eminences whose statements on trade matters receive serious consideration from lawmakers and opinion leaders. But not everyone he speaks to realizes he now has a personal and professional interest in NAFTA. In April 1991 Brock testified before the Senate Finance Committee. He was billed as a former U.S. Trade Representative, a specialist in the often arcane world of trade policy, someone to be heeded. He spoke favorably of a U.S.-Mexican free trade agreement. Mexican officials present must have been pleased to have such a high-profile U.S. trade expert make their case. He earned his paycheck that day. But not everyone in the committee room knew Brock was a hired gun. Brock neglected to mention he was receiving a large sum of money from Burson-Marsteller and the Mexican government at the time.

"When asked later about his failure to disclose his financial link to Mexico, Brock maintained that since he had registered as a foreign agent for Mexico, he affiliation was no secret. But Congressional committee staff do not routinely trudge over to the Justice Department to check on the foreign ties of prospective witnesses. The conflicts of interest of witnesses are often not known to the committees that receive their testimony. In this case, nothing in the public record of the hearing revealed that Brock had financial loyalty to Mexico.

A Campaign to Capture New Congressmen

"When 122 new members of Congress were elected last November, Mexico's NAFTA team sprang into action – every new legislator was specifically targeted to be contacted by a lobbying firm retained by Mexico. One of these, Walker/Free Associates, took on the Midwesterners. Another, Public Strategies, was assigned to

hammer the California and Texas members; Gold and Liebengood, Inc. was assigned the Senate Republicans and TKC International drew the new Hispanic members. These firms are considered to be among the most effective in the business. Charles Walker/Free Associates, Under Secretary of the Treasury and Deputy Secretary of the Treasury in the Nixon Administration, is one of the most renowned lobbyists in Washington. (His other clients have included Anheuser-Busch, AT&T, CBS Records, Columbia Pictures, Mitsubishi and CSX Corporation.) His associate Phil Potter is also a former Treasury Department official. Walker/Free Associates is handling much of the day-to-day schmoozing on the Hill, monitoring and lobbying new members. It has contacted more than 300 government officials over a two-year period, according to Justice Department records. Walker and his colleagues have contacted staff members of the Senate Finance Committee seventeen times and the House Ways and Means Committee eleven times.

Public Strategies

"Public Strategies is run by Joe O'Neill, once the top aide to Treasury Secretary Lloyd Bentsen when he was in the Senate. From June 1991 to October 1992, O'Neill's small firm was paid \$455,771. For all that money, O'Neill visited a number of legislators to sell them on the wonders of NAFTA. Making the most of his old Bentsen ties, he contacted old friends in the former Senator's office sixteen times and contacted the Senate Finance Committee (on which Bentsen served) twenty-three times. He and his firm pitched NAFTA to Senators Brock Adams and Chuck Robb and Representatives Howard Berman, Bob Matsui, Richard Gephardt and Ron Wyden, among others.

"SECOFI paid lobbyists Gold and Liebengood \$523,000 in fees from June 1991 to December 1992. Howard Liebengood is a former Senate sergeant-at-arms. Many of his associates working the NAFTA beat are former government officials who have served as staff members in the House, the Senate and the Department of Health and Human Services. Gold and Liebengood contacted members of Congress and their staff nearly 500 times in a year and a half. Mary Latimer, a staffer formerly with Donald Pease and currently with the House Ways and Means Committee, was targeted fifteen times. Representative Jim Kolbe and his staff were contacted twenty-four times. According to Justice Department documents, key Senate Finance and Commerce Committee staff members were plied with 'Christmas candy' from the government of Mexico, via Gold and Liebengood.

An Army of Lobbyists Pushing NAFTA

"What was the need for such an army of lobbyists? for one thing, there is strength in numbers: The more lobbyists you can mobilize, the more officials you can see. And each lobbyist has – or likes to boast he or she has – special contacts with certain members of Congress or executive branch of officials. Finally, that's

the way things are done in this town. Von Bertrab has a simple explanation for Mexico's saturation strategy: 'When in Rome, do as the Romans do.'

THE SELLING OF THE PRESIDENT-ELECT

"At the start of its pro-NAFTA drive, Mexico was fortunate not to have to worry about the White House. Bush was a solid friend of NAFTA. The punditocracy pronounced him a sure two-termer. But then Bush's hold on the presidency began to weaken. And Mexico was not about to be caught flat-footed.

"As Clinton's political fortunes ascended, pro- and anti-NAFTA forces launched intense efforts to win him over. Labor leaders met with Clinton and raised their objections to the treaty; unionists pressed anti-NAFTA position papers on his campaign aides. But they were outgunned by the Mexicans – who were egged on by U.S. lawmakers.

"According to von Bertrab, Democratic members of Congress backing NAFTA urged Mexican government officials 'to start having some connections with the [Democratic] party and the [Clinton] campaign.' Von Bertrab admits he heeded the advice, but he will not say who in the campaign was approached by Mexican government reps. They had a wealth of choices. Several Clinton advisers were close to Mexican business interests or fans of NAFTA. (Some Clintonites were registered foreign agents.) One top adviser was Robert Rubin, who was at the time co-chairman of Goldman, Sachs and Company, the Wall Street investment banking firm. Rubin personally handled several of Goldman, Sachs' most important clients, including the government of Mexico. He would be named by Clinton to chair the National Economic Council. (He has since recused himself from matters involving Mexico.)

"During the primaries, candidate Clinton hedged on the North American Free Trade Agreement, but he certainly was no critic. In the summer and early fall, after Ross Perot had infused the campaign with loosely populist soundbites about foreign lobbyists, job losses and cheap overseas labor markets, Clinton turned up the flame of his own rhetoric. Not only was he going to end 'politics as usual' in Washington, Clinton would not back NAFTA unless certain concerns about U.S. jobs and the environment were met.

Mexico Encircles Clinton

"Around this time, Mexico was getting closer and closer to the next President of the United States. In September, National Journal reported that the Mexican government had retained O'Melveny and Myers, the law firm of future Secretary of State Warren Christopher, to advise Mexico on technical issues in the NAFTA negotiations, such as antidumping laws and countervailing duties. O'Melveny and Myers did not disclose these activities to the Justice Department.

"That same month in Little Rock, Bill Clinton received a pro-NAFTA research paper written by two of his longtime friends, Paula Stern and her husband, Paul London. Stern had served on the International Trade Commission in the mid-1980s. She then became an economic consultant to several clients and lobbied her old agency on behalf of Japanese corporations who wanted to bring high-definition television technology to the potentially lucrative U.S. market. Stern had the embarrassing misfortune of seeing her labors exposed on an Emmy award-winning episode of Frontline. London, who has represented several overseas clients, including the Japan Society of Industrial Machinery Manufacturers, is currently in line to receive a top Clinton Commerce Department appointment.

Clinton Agrees to Back Treaty

"These two F.O.B.s had been retained by the U.S. Council of the Mexico-U.S. Business Committee – pro NAFTA moneyed interests, many of which have operations in Mexico. Not surprisingly, the Stern Group's paper, titled 'Investment, Trade and the U.S. Gains in the NAFTA,' concluded that the treaty would have positive effects on the U.S. economy. Stern and London optimistically predicted that NAFTA would lead to the creation of 200,000 new U.S. jobs. (A number of economic studies have been published, forecasting everything from employment nirvana for U.S. workers, with thousands of new jobs created, to sheer hell, with millions of jobs lost.) Shortly after Clinton received this report, paid for by pro-NAFTA forces, he announced on October 4 his tentative support of the treaty. While he had some concerns about labor and environmental issues, ultimately the next President would help make NAFTA a reality. The public commitment was made.

"Following Clinton's election, the Mexican government made its first direct approach. In November, Mexican President Salinas's Chief of Staff, Jose Cordoba-Montoya, met in Washington with Clinton transition officials Samuel Berger and Barry Carter. Cordoba-Montoya pressed them to support President Bush's signing of NAFTA, which he did on December 17. Cordoba-Montoya also urged that Clinton commit himself to securing Congress's approval before this summer's recess. On January 9, President Salinas and Clinton met in Texas. The Mexican leader was the only head of state the President-elect met with before moving into the White House.

Lobbyists on Clinton Transition Team

"But that wasn't Mexico's only access to the Clinton government-in-waiting. It must have been reassuring to Mexican officials that several of the country's paid lobbyists served directly on the Clinton transition team. One of them was Gabriel Guerra-Mondragon, a former special assistant to the U.S. Ambassador to Mexico in the 1980s and now president of two Washington-based consulting firms that have received a lot of money from Mexico. In the critical period of October-

December 1992, Guerra & Associates received \$81,000 from SECOFI to 'make contact and meet with United States legislators and other public officials.' At the same time, Guerra-Mondragon was a Clinton transition adviser on national security issues. In addition, his other firm, TKC International, has received \$388,376 from SECOFI since August 1991 to lobby members of Congress, as mentioned earlier.

"At Treasury, Secretary-designate Lloyd Bentsen brought in his former aide Joe O'Neill, head of the consulting firm Public Strategies, which was retained by Mexico, to assist in the transition. O'Neill interviewed prospective political appointees and helped Bentsen establish his Treasury operations.

Key Lobbyists Move into Clinton Administration

"After the inauguration, Charlene Barshefsky was nominated to be Deputy U.S. Trade Representative. She has been registered as a foreign agent for firms in Japan, Canada and Mexico. According to Justice Department records, she or her firm represented a broad coalition of Mexican companies pushing for NAFTA. When asked if Barshefsky's background posed any problem, a spokesperson for the office of the U.S. Trade Representative told The Wall Street Journal, 'I believe it is a distinct advantage [to have] represented both domestic and foreign clients. That kind of well-rounded representation gives you insight.' And Clinton nominated Daniel Tarullo, of Shearman & Sterling, as Assistant Secretary of State for Economic and Business Affairs. Tarullo will oversee the department's trade office. He reportedly worked for Mexico in its NAFTA trade negotiations with the United States.

FLY THE FRIENDLY SKIES

"For the past two years, Mexican business interests, working in tandem with their government, have waged an elaborate campaign to 'educate' U.S. government officials about the benefits of the proposed North American Free Trade Agreement. Between April 1991 and February 1993, the deep-pockets Mexican group COECE took fifty Congressional staffers – including Donsia Strong – on nine trips to Mexico. Although the Constitution prohibits members of Congress and their employees from receiving 'any present***of any kind' from a foreign government without the consent of Congress, such trips apparently do not violate this provision because COECE is ostensibly a nongovernmental organization. However, it does have close ties to the Mexican government and advised it during the NAFTA negotiations. And its executive director, Guillermo Guemez, was formerly the executive vice president of Banco Nacional de Mexico, which until August 1991 was owned by the Mexican government.

"So far the House members, the governor and nearly all of the Congressional staffers who have gone to Mexico have not publicly disclosed these activities. (Either they do not have to, or the deadline for disclosure has not yet passed – and in some cases, won't pass until after Congress has voted on the treaty.) In the

Senate, staffers must receive authorization from the Ethics Committee before accepting foreign travel; their names are then published in the Congressional Record. So far, fourteen Senate staff aides have disclosed their participation in the trips.

"Queries to roughly 200 Congressional aides reveal that forty-eight staff members went to Mexico on COECE's dime. Two of the most powerful committees in the House of Representatives were targeted by COECE. Bruce Wilson and Mary Latimer of the House Ways and Means Subcommittee on Trade journeyed to Mexico. So did Janet Potts, a staffer for John Dingell's House Energy and Commerce Committee.

Mexico Beefs Up Its Efforts in Congress

"To beef up its lobbying efforts in Congress, the Mexican business group enlisted the services of Ruth Kurtz, a well-connected former Senate aide and trade expert. Kurtz, hired for \$80,000 a year, was a good catch. From 1970 to 1980, she was an international economist and U.S. trade negotiator at the Commerce Department. From 1980 to 1983 she served as a trade adviser to Paula Stern at the International Trade Commission. Then she joined the staff of Republican Senator William Roth, where she was a major author of the 1988 Omnibus Trade Act. Kurtz quit the Senate in 1989 and subsequently signed on with COECE.

Focus on Capital Hill Staff

"Kurtz, who refused to be interviewed, earns her keep by schmoozing with former fellow trade specialists on Capitol Hill, the men and women advising legislators on NAFTA. From April 1991 through October 1992, according to Justice Department records, Kurtz or her principals discussed NAFTA in meetings with legislators on seventeen different occasions. There were two meetings with Senate minority leader Bob Dole. Others on the hit list include then-Senate Finance committee chairman Lloyd Bentsen and Representative Kika de la Garza, Bill Richardson and Robert Torricelli. But the real work on Capitol Hill occurs at the staff level, so the Mexican business group and Kurtz presented the merits of NAFTA to various House and Senate staffers on 220 occasions – in telephone conversations, at office meetings, over lunch. They held ten meetings with governors during this period, including two sessions with California Governor Pete Wilson. And they met with officials of the U.S. Trade Representative's office twenty-one times, including twice with Trade Rep. Carla Hills. Kurtz's former employers at the Commerce Department heard her pitch on NAFTA nineteen times, including at one meeting with then-Secretary Robert Mosbacher. Nine conversations were held at the International Trade Commission. And the staff of Senator Roth, ranking minority member of the powerful Finance Committee, which has principal jurisdiction over trade matters such as NAFTA, was visited by alumna Kurtz twenty-two times.

"Kurtz wine and dined some staffers at Washington's most popular restaurants: the Ritz Carlton, Sequoia, La Colline, Sam & Harry's, Joe & Mo's, Old Ebbitt Grill, the Monocle. Kurtz and her Mexican clients also played Santa Claus. According to Justice Department documents, they bought a 'Christmas Gift for [a] Member of Congress' at Saks Fifth Avenue. Another Christmas gift was purchased for a Congressional staffer from Victoria's Secret, the lingerie chain. The recipients of the gifts were not named. (Congress is now considering a bill that will force lobbyists to disclose the recipients of such gifts.) Kurtz also worked the media, spinning positive stories about Mexico and with NAFTA.

Trips to Mexico for Congress

"But the centerpiece of Kurtz's campaign to win friends and influence Capitol Hill people was the trips to Mexico. Practically all of the trips were led and organized by Kurtz. Both Democrats and Republicans were invited on these visits. Some of the staffers work for legislators who have already decided their positions on NAFTA, and others work for legislators who are on the fence. One delegation included staffers for lawmakers concerned with Mexico's environmental record. Another brought together staff aides to members who care about Mexico's human rights record. And one tour consisted of staffers from offices that were openly anti-NAFTA.

"These trips weren't junkets. Meetings were scheduled back to back. The agenda was loaded, and the visitors were exposed only to the business side of the issue. Very few meetings were held with Mexican anti-NAFTA groups, and these had to be organized independently by the staff members.

"Many staffers say the experience made them better understand the importance of NAFTA to Mexico. Some left feeling unsure about NAFTA's environmental and job repercussions in the United States. But several staff aides note that they came home believing that if NAFTA is good for Mexico, it will be good for the United States. Philip Boyle, who was a legislative assistant for former Representative Frank Horton, says that Horton was undecided about NAFTA until Boyle participated in a 1991 COECE trip. Horton was among those who voted for giving President Bush fast-track authority, which allowed Bush to negotiate NAFTA without too much interference from Congress. Some staff people on the Hill report that the trips reinforced their already positive attitudes toward NAFTA. And clearly, the information they brought back made its way to the legislators. For example, Bruce Wilson, staff director of the House Ways and Means Committee's Subcommittee on Trade, says 'staff findings' from these trips were shared with Dan Rostenkowski, chairman of the committee, and were made available to other committee members.

Lobbying Continues after Signing of NAFTA

"After the treaty was signed by Salinas, Bush and Canadian Prime Minister Brian Mulroney in December 1992, COECE shut down its Washington office. According to von Bertrab of Mexico's NAFTA office, the business group's primary purpose was to serve as a liaison between Mexican corporate interests and Mexican government negotiators. After the pact was signed, there was less need for the business-government interaction. But COECE still keeps Kurtz on its payroll – presumably to lobby members for the final ratification of NAFTA. While nations trying to work their way around Washington have occasionally operated through government-connected trade associations, Mexico has taken its persuasion efforts a step further. The trade analysts to the most powerful, relevant members of Congress were systematically led by the nose to Mexico to hear its carefully scripted story.

American Business Weighs in Big

"Corporate Mexico and the Salinas government are not alone in the push for NAFTA. Hundreds of major U.S. companies, eyeing cheap labor, weak regulations and new consumers in Mexico, are crusading for the agreement. Flimsy disclosure laws make it difficult to calculate how much U.S. business interests are spending on pro-NAFTA activities. But the total runs into the millions of dollars.

USA NAFTA

"The most prominent organizations pushing NAFTA are USA*NAFTA, the U.S. Council of the Mexico-U.S. Business Committee, Trade Partnership, the U.S. Chamber of Commerce, the National Foreign Trade council, the Business Roundtable and the National Association of manufacturers. USA*NAFTA is the largest. About 80 percent of the coalition members are companies and 20 percent of them are trade associations and what USA*NAFTA euphemistically calls 'consumer' groups, with names like Consumers for World Trade, Citizens for a Sound Economy and San Diegans for Free Trade. More than 2,000 plants operating in Mexico are owned by U.S. companies, and many of their parent companies are members of USA*NAFTA. Formed last October by Kay Whitmore, the chairman and C.E.O. of Eastman Kodak, and James Robinson, then head of American Express, USA*NAFTA claims to have raised \$2 million. But according to the group, it has not yet spent much of this money. Gail Harrison of the Wexler Group, a well-connected public affairs consulting unit of Hill and Knowlton, manages an extensive grass-roots effort, which in part involves identifying companies in Congressional districts that are pro-NAFTA and enlisting them to bring local pressure to bear upon the relevant representative. USA*NAFTA also hired Mari Maseng Will of Maseng Communications as a media consultant and Chuck Levy of Wilmer, Cutler and Pickering as counsel.

"USA*NAFTA is working with others in a unified network of business leaders and pro-NAFTA associations that its members have dubbed the Alliance. They have been conducting the low-profile, behind-the-scenes lobbying. Within the Beltway, the Alliance has made the House of Representatives, where the treaty may be in trouble, its prime target. (NAFTA proponents believe they have a majority in the Senate.)

"In this effort to woo the more volatile House, the U.S. Council of the Mexico-U.S. Business Committee, an Alliance member, sponsored a two-day event for new members of Congress, from both parties, at the National Democratic club in Washington. The council made certain that local pro-NAFTA business leaders were present. At breakfast, lawmakers and their staffers sat surrounded by business people from their home district who praised NAFTA. Congressional NAFTA supporters, including Senator Bill Bradley, the chief Senate supporter of NAFTA, were the keynote speakers at the affair.

Focus at the State Level

"USA*NAFTA is building support for NAFTA at the state level. The group uses 'state captains' to persuade local officials and business people to rally behind the treaty – and let their elected leaders know where they stand. The state captains are typically officials in companies that are commercially and politically influential within their states: BankAmerica in California; AT&T in Florida; Du Pont in Delaware; General Electric in Massachusetts; General Motors in Michigan; Eastman Kodak in New York; Caterpillar in Illinois.

"According to USA*NAFTA's legal counsel, Chuck Levy, the U.S. business community organizations keep their activities separate from those of the Mexican government. But the Mexican NAFTA office communicates regularly with the U.S. business groups lobbying for the treaty. As with the Mexican government, U.S. corporations are spending large amounts of money to get NAFTA ratified, and their labors effectively complement Mexico's own extensive lobbying campaign. As von Bertrab says, Mexican officials are 'less credible' than U.S. business people when extolling the benefits of NAFTA in the United States. U.S. companies are lobbying for what their officials believe is best for them – and, by extension, for the American people. Their entry into the fray further stacks the deck.

Government by Special Interests

"What has all this expensive hyperactivity wrought? The high-powered, moneyed interests have succeeded in making their agenda America's agenda – and even given it an apple pie-sounding name: North American Free Trade Agreement. William Greider has written about a sophisticated form of political manipulation he calls 'deep lobbying,' the purpose of which is to define public argument and debate. 'It is another dimension of mock democracy – a system that has all the trappings of

free and open political discourse but is shaped and guided at a very deep level by the resources of the most powerful interests.'

"For years, the logic, the assumptions and the seeming inevitability of NAFTA have been carefully constructed, and the reasonable concerns of environmental, labor, consumer and other groups have been brushed off as annoying but harmless gnats. Except for some token memberships on a few trade advisory committees, these modestly funded forces have been largely ignored by the trade professionals in the three governments, who have been working closely with the various North American corporations. Issues of greatest import to the great majority of people, such as the potential loss of jobs or lowered environmental standards, were treated as afterthoughts to the process. These concerns were given scant attention in the main body of the pact – hence the need for 'side agreements' to NAFTA. The whole process has a cynical, cosmetic quality, with the pretense of responsible discourse included after the fact.

A Massive Selling Job

"As with so many critical issues, the presence of a high-powered lobbying campaign makes it unlikely that decision are being made on the merits. and that is perhaps the most damaging consequence of an operation like the selling of NAFTA. It undermines confidence in government.

"NAFTA is a perfect issue for lobbyists. It is highly technical. The details are arcane. Trade matters are often disposed of far from public scrutiny. Even some members of Congress would rather not deal with them. How could the NAFTA process have evolved any differently, when so many of the former U.S. trade official have been retained by Mexico or U.S. corporations with subsidiaries there? In such a setting, the right word from the right lobbyist can make a difference.

An Agreement Which Undermines America

"NAFTA is too important to leave to the lobbyists. The persuasion campaign conducted on its behalf may lead to passage of a treaty that could prove harmful to a vast number of Americans. This lobbying fee-for-all is more evidence that the way Washington does business needs to change. Clinton's executive order banning former government officials from going to work for special interests may prevent future revolving-door shenanigans such as those evident in the NAFTA game. The lobbying disclosure will now before Congress would shine a brighter light on the day-to-day activities of lobbyists in Washington. And some members of Congress are beginning to eschew all future privately funded travel by themselves and their staff. Such changes are overdue, but they are only a beginning: For as long as the present system remains in place, the public will rightly wonder whether all they are getting is the best legislation special-interest money can buy.

NAFTA's Opposition

"In the past two years, an unusual anti-NAFTA coalition has emerged. People and organizations that formerly would never speak to one another are meeting on a regular basis. The opposition includes businesses, labor unions, environmental and consumer groups, and Ross Perot. Although the anti-NAFTA forces are substantially outspent by the paid lobbyists and consultants of Mexico and corporate America, their ability to mobilize their members makes them somewhat competitive.

Citizens Trade Organization

"Many NAFTA opponents belong to the Citizens Trade Campaign, a broad coalition of more than seventy national organizations. Its annual budget is a mere \$200,000, and it employs only three full-time national staff members and fourteen field staffers. Former Democratic Congressman Jim Jontz of Indiana is the executive director.

Generating Opposition to NAFTA on a Shoe-string Budget

"The coalition has tried to generate opposition to NAFTA in public rallies and meetings across the nation by emphasizing the prospect of substantial loss of jobs and of international trade tribunals overruling U.S. regulations on workplace safety and the environment. Several unions have played an important role in the anti-NAFTA effort. The United Auto Workers, the International Ladies Garment Workers Union, the International Brotherhood of Electrical Workers and the Machinists, Teamsters and others lobbied lawmakers and staged protests, sponsored petition campaigns and organized traveling anti-NAFTA caravans with displays, speakers and videos about worker exploitation in Mexico. The A.F.L.-C.I.O., like the U.S. business community, has taken out advertisements and worked with other groups – such as the nonprofit Congressional Economic Leadership Institute – in organizing trips to Mexico for legislators. A.F.L.-C.I.O. trade analyst Mark Anderson says the federation's opposition to NAFTA is largely unorganized and 'a low-budget operation.' If the federation fully mobilized its 14 million members, it could influence the NAFTA debate. Recently, however, the executive council decided to push for appropriate side agreements to the pact rather than launch a national campaign to derail it, as many union leaders have urged.

Very Few Business Organizations Oppose NAFTA

"A few business organizations also oppose the treaty. The American Trade Council and the U.S. Business and Industrial Council view NAFTA as a potential threat to small and middle-sized U.S. companies less able to relocate to Mexico than big corporations. They also fear that the free-trade zone will enable overseas companies to use Mexico as an alternative staging area to circumvent U.S. import laws.

The Role of Public Citizens

"Cooperating with the anti-NAFTA business associations is Public Citizen, a Ralph Nader group. Until recently, Public Citizen has had one full-time person on the NAFTA case: Lori Wallach, who directs the trade program at Public Citizen's lobbying arm, Congress Watch. Wallach glories in being a trouble-maker. during the highly secretive NAFTA negotiations in 1991 and 1992, Public Citizen and other opposition forces were locked out and complained that their concerns were not being addressed. No one would provide copies of position papers or other negotiating materials. In February 1992, Public Citizen received a leaked copy of the NAFTA text. It released the document to the public, causing an uproar within the Bush Administration over the breach of security. The office of the U.S. Trade Representative immediately began tagging the NAFTA drafts with a secret code, so any leaked text could be traced back to the culprit. On Capitol Hill, Wallach has lobbied furiously, along with lobbyists from unions and other groups. But the money spent by the anti-NAFTA forces is a mere fraction of Mexican and U.S. corporate lobbying expenditures.

"Environmentalists are split on NAFTA. Greenpeace, Friends of the Earth and the Sierra Club are active participants in the Citizens Trade Campaign. Their chief worry is that NAFTA will make it easier for U.S.-based corporations to move their operations to poorer countries with weaker environmental regulations, thereby sidestepping U.S. laws but also jeopardizing the safety and health of indigenous people in less-developed nations. A warning sign came in 1991 when Mexico challenged a U.S. law banning tuna imports from countries that killed more than 20,000 dolphins annually during tuna catches. The Mexicans argued that the law constituted an unfair trade barrier. An international trade panel ruled in favor of Mexico. Some environmentalists envision more such cases should NAFTA be ratified. But recently six large environmental organizations – the National Audubon Society, the Nature Conservancy, the National Wildlife Federation, the Environmental Defense Fund, the World Wildlife Fund and Defenders of Wildlife – announced they would support the treaty, as long as appropriate auxiliary agreements are negotiated....

The Players: Former U.S. Government Officials Working for NAFTA's Passage, 1989 to Present, as Reported to the Department of Justice

Registered and Current Firm	Former Government Position (Years Served)
Toney Anaya – Independent Lobbyist Attorney General	Governor of New Mexico, 1983-87; of New Mexico, 1976-79, Admin. Asst. to New Mexico Governor Bruce King, 1971-72; Leg.

Counsel for Sen. Joseph Montoya, 1966-69; and
Exec. Asst. to the Asst. Sec. of State. 1966.

John Bede – Olsson, Frank, and Weede Deputy Asst., U.S. Trade Rep. for
Mexico, 1985-88;

Trade Attache to the E.E.C., U.S. Trade Rep.,
1981-85; and Exec. Dir., U.S. Generalized System
of Preferences, U.S.T.R., 1980-81.

William Brock – The Brock Group Sec. of Labor, 1985-87; U.S. Trade Rep.,
1981-85;

Chairman, Republican Party Nat'l Comm., 1978-81;
Sen., 1970-76; and Member, U.S. House of Reps.,
1962-70.

Doral Cooper – Crowell & Moring Asst. U.S. Trade Rep., Office of Bilateral
and

Multilateral Affairs, International 1981-85;
Deputy Asst. Special Trade Rep. for Japan and
Developing Countries, 1978-81; Economist and
Exec. Dir. of the Generalized System of Preferences;
Prog. U.S.T.R., 1977-78; and Economist for Int'l
Finance and Trade Matters, Council of Econ.
Advisers, 1975-77.

Peter Ehrenhaft – Bryan Cave Deputy Asst. Sec. and Special Counsel
(Tariff Affairs),

Dept. of the Treasury, 1977-79.

James Free – Walker/Free Associates Cong. Liaison to the White House
(Carter Admin.)

James Frierson – The Brock Group Coord., U.S. government's policy on the functioning of GATT, system in the Uruguay Round, 1987-89; and Special Asst. to Amb. William Brock, U.S. Trade Rep., 1981-85.

Lee Fuller – Walker/Free Associates Majority Staff Dir. under Sen. Lloyd Bentsen, Sen.

Comm. of Environment and Public Works, 1985-87;

Minority Staff Dir., Sen. Comm. on Environ. and

Pub. Works, 1978-85.

Peter Giavas – Gold and Liebengood Special Asst. to Sen. David Boren, 1987-88; Tax Counsel,

Sen. Boren, 1984-88; Chief of Staff, Sen. Boren,

1984-86; and Campaign Mgr. and Field Rep.,

Oklahomans for Boren, 1980-84.

Martin Gold – Gold and Liebengood Legal Counsel for Sen. Howard Baker, 1981-82;

Counsel for Floor Operators to Baker, 1979-80;

Min. Staff Dir. and Counsel, Sen. Comm. on Rules

& Administration, 1977-79; Staff, Sen. Intell.

Comm. 1976; and Legal Asst. to Sen. Mark Hatfield,

1973-76.

Gabriel Guerra – Mondragon – Guerra & Adviser on Nat. Security Issues,

Clinton Transition team, 1992-93;

Associates, TKC International

Special Asst. to the U.S. Amb. to Mexico, 1980-83.

Robert Herzstein – Shearman & Sterling Under Sec. for Int'l Trade, Dept. of
Commerce, 1980-81.

Edward Hidalgo – Independent Lobbyist Sec. of the Navy, 1979-81; Asst. Sec.
of the Navy,

1977-79; Gen. Counsel and Cong. Liaison, U.S.
Information Agency, 1973-76; Special Asst. to
Director of the U.S. Information Agency, 1972;
and Special Asst. to the Sec. of the Navy,
1945-46, 1965-66.

William Hildenbrand – Gold and Liebengood Sec. of the Senate, 1980-84; Sec.
for the Min.,

U.S. Senate, 1979-80; Chief of Staff, Sen. High Scott,
1969-74; Leg. Asst. to Sen. Caleb Boggs, 1961-68;
Asst. Cong. Liaison, Dept. of Health, Education &
Welfare, 1959-60; and Aide to Rep. H.G. Heskell,
1957-58.

Patricia Jarvis – Gold and Liebengood Special Asst., Off. of Leg. Dept. of
Health and

Human Services, 1987-86.

Ruth Kurtz – Independent Lobbyist Aide to Sen. William Roth, mid-1980s
(left in 1989);

Trade Adviser, Int'l Trade Comm., 1980-83; and
Int'l Economist and U.S. Trade Neg., Dept. of
Commerce, 1970-1980.

Stephen Lande – Manchester Trade Assistant U.S. Trade Rep. for Bilateral
Affairs (left

1982); Office of the Special Trade Rep.,

Including Deputy Asst. U.S.T.R., 1973
83; State Dept., Chief of Econ. and Info.
Services, U.S. Embassy, Luxembourg, 1970-73;
and State Dept., Consular Off., Athens, Greece,
1966-68.

Howard Liebengood – Gold and Liebengood Sergeant-at-Arms, U.S. Senate,
1981-84; Leg.

Counsel to Sen. Min. Leader, 1977-81; Min.
Staff Dir., Sen. Select Comm. on Intell.,
1976-77; Consultant to Sen. Howard Baker, 1975-76;
and Asst. Min. Counsel Watergate, 1973-74.

George Mannina – O'Connor & Hannan Chief Min. Counsel, House Merchant
Marine and

Fisheries Comm., 1983-85; Min. Counsel, House
Subcomm. on Fisheries, Wildlife, Conservation
and the Environment, 1975-83; Leg. Asst.
to Rep. Edwin B. Forsythe, 1972-75; and Admin.
Aide to Rep. Gilbert Gude, 1971-72.

Mary Lou McCormick – Formerly Press Asst., Deputy Press Sec., and Press
Sec. to Sen.

Bob of Gold and Liebengood Packwood, 1981-1987.

Joseph O'Neill – Public Strategies Admin. Asst. to Sen. Lloyd Bentsen, 1980-
84; Exec.

Asst. to Sen. Bentsen's Texas office, 1972-79.

Phil Potter – Walker/Free Associates Aide to Sen. Peter Dominick, 1969-70;
Senior

positions, Dept. of Treasury, 1970-71.

William Ratchford – Gold and Liebengood Member, House of Reps., 1979-85.

Otto Reich – The Brock Group Amb. to Venezuela, 1986-89; Special Adviser to the

Sec. of State, Interagency Office of Pub.

Diplomacy for Latin America and the Caribbean,

1983-85; Asst. Admin. U.S. Agency for Int'l Develop.

Progs. on Latin America and the Caribbean, 1981-83;

and Staff Asst., House of Reps. 1970-71.

Mark Robertson – Gold and Liebengood Leg. Dir. for Rep. Stan Parris, 1980s.

John Scruggs – Gold and Liebengood Asst. Sec. for Legislation, Dept. of Health and Human

Services, 1983-84; Special Asst. to the Pres.

for Leg. Affairs, 1981-82; Floor Asst. to

House Republican Whip Trent Lott, 1980-81; and

Staff Member of the House Rules Comm., late

1970s.

Peter Slone – Gold and Liebengood Deputy Nat'l Campaign Mgr., Mondale for President,

1984; U.S. House Approps. Comm. Assoc. Staff,

and Cong. Liaison to the House Educ. and Law

Comm. and Select Comm. on Aging, Office

of Rep. William Ratchford, 1978-83.

James Smith – Walker/Free Associates U.S. Compt. of the Currency, 1973-76; Deputy Under

Sec., Treasury Dept., and Dir., Off. of

Cong. Relations, Treasury Dept., 1969-73;

Min. Counsel to the Sen. Subcomm. on

Intergov't'l Rel., 1960-62, and Leg. Asst.

Sen Karl Mundt, 1957-60.

Michael Smith – SJS Advanced Strategies Deputy U.S. Trade Rep., 1980-88;
U.S. Amb. to

GATT, Geneva, 1979-083; Chief., U.S. Textile

Negotiator, 1975-1979; Deputy chief, then

Chief, Fibers and Textile Div., U.S. State

Dept., 1973-74; Chief of Pres. Corres. for

the White House, 1970-73; and Foreign Service,

various positions, including Foreign Service

Off., 1958-70.

David Tarullo – Shearman & Sterling Nominated to be Asst. Sec. for Econ.
and Bus.

Aff., State Dept., 3/19/93; not confirmed as of

press time. Chief Employ, Counsel of the Sen.

Comm. on Labor and Human Resources, 1987-89; and

Exec. Asst. to the Under Sec., Dept. of Commerce

(Int'l Counsel), 1980-81.

Abelardo Valdez – Independent Lobbyist Amb., Chief of Protocol, State Dept.,
1979-81; Asst.

Admin. for Latin America & the Caribbean, U.S.

Agency for Int'l Devel., 1977-79.

Charls Walker – Walker/Free Associates Deputy Sec. of the Treasury, 1972-73;
Under Sec.

of the Treasury, 1969-72; and Asst. to the Sec.

of the Treasury, 1959-61.

(*Congressional Record*, November 18, 1993, pp. S16150-S16158.)

NAFTA Will Cost the U.S. Taxpayer Billions of Dollars

Senator Kempthorne, a Senator of Idaho stated:

"Mr. KEMPTHORNE: Mr. President, since I came to the Senate in January of this year, I have made a point of thoroughly investigating the provisions of the North America Free-Trade Agreement and its side agreements. I had said during my campaign for this seat that I would reserve comment on NAFTA until I saw the final document. I was criticized back then by those who said that NAFTA was an agreement set in concrete. They said it could not be changed. Since then I have been proved right by the modification of NAFTA by at least two formal side agreements and numerous letter agreements. In fact lately, NAFTA has looked less like it is set in concrete than it has looked like a moving target. Side agreements on sugar, wheat, citrus, beef, cucumbers, lettuce, celery, bell peppers, tomatoes, wine and peanuts have been negotiated in just the last 2 weeks. The cost of one NAFTA vote was \$450 million for the North American Development Bank. We will not know the cost of NAFTA for weeks or years to come as the slick side deals bought and paid for with pro-NAFTA votes come to light. If a vote has to be bought in this way, NAFTA, the product, must not be all it's advertised.

NAFTA Creates New International Bureaucracies

"NAFTA is more than just a trade agreement. If NAFTA were just a trade agreement it would simply eliminate trade tariffs and barriers, expand markets and create jobs. If NAFTA did just that, I would strongly support it. But NAFTA is not just a tariff cutting bill. NAFTA creates new layers of international bureaucracy.

"Throughout the year, I have consistently stated that if the interests of Idaho were not well served by the treaty, I would feel compelled to oppose the treaty on that basis alone. At the time, I was referring to an adverse impact the treaty might have on particular Idaho industrial or agricultural groups or commodities. However, after taking a much closer look into NAFTA, there is an obvious defect in the agreement so basic and so fundamental that its seriousness must outweigh other considerations. I'm concerned the NAFTA treaty will fatally compromise the sovereignty of Idaho. I cannot, and I will not, vote to approve NAFTA if it infringes on the sovereignty of the State of Idaho.

NAFTA Will Infringe on the Sovereignty of Idaho

"Although the NAFTA agreement provides that the agreement itself cannot supersede State law, State laws in violation of NAFTA will be changed by the United States if the State law is inconsistent with NAFTA. Although the NAFTA agreement itself does not overturn any conflicting State law, the United States has an obligation to Mexico and Canada to take all necessary measures to bring State laws into conformity with the agreement. The implementing legislation specifically authorizes the Federal Government to challenge any State law which conflicts with NAFTA. Mexico and Canada, or any national of those two countries, will have an opportunity to challenge a State's acts before the Councils for the Commission for Labor and Environmental Cooperation. Not much attention has been focused on these trilateral commissions created by the side agreements. The United States, Mexico and Canada will be represented on each commission, depending on the side agreement, by the EPA Administrator or the Secretary of Labor. Within the Environmental Side Agreement the range of issues the council may consider is far reaching, from 'promoting public awareness' about the environment to 'approaches to environmental compliance and enforcement.' The council is to work for the continued improvement of environmental laws, and to do so without reducing levels of environmental protection. Within the labor side agreement, the council shall cooperate to promote activities regarding issues as varied as the 'formation and operation of unions' to 'occupational safety and health' and 'social programs for workers and their families.' While it is hoped that most decisions are to be by consensus, two governments could out-vote a third.

"Idaho will have no right to represent itself or participate in the defense of her own acts before the council. A State or local governments only allowed participation will be as a result of a United States request for information.

State Governments Are at the Mercy of Trade Dispute Panel

"State governments should have a greater degree of autonomy than is reflected in these side agreements. If a state law is in conflict with NAFTA but the relevant State government can make a case for its retention, the law should be retained and should be exempted from the agreement.

"A five-member arbitral panel can declare that State and local acts violate NAFTA and the panel may impose monetary sanctions against the United States. We can assume the United States will seek to pass on the cost of that monetary sanction to the individual State or local government. I am concerned that the United States will want to recover from Idaho, a penalty imposed against the United States by the arbitral panel, in cases where the State disagrees with the interpretation of a State or Federal law or regulation. Legitimate differences in interpretation could be wrongly labeled as a failure to enforce an environmental law. Language should be included which prohibits the Federal Government from

recovering a fine or other penalty where an interpretive dispute or a constitutional question exists.

"I believe the administration should guarantee that NAFTA enforcement actions will not be used as evidence and should be inadmissible in any Federal proceeding against a State or local government. This is especially needed since under the existing agreement States are denied a reasonable opportunity to be heard and evidence of such a decision would have an unreasonable prejudicial effect.

"States like Idaho will be denied the constitutional right to establish stricter regulations and policies than are imposed by the Federal Government. We will have no control over our own State product standards and regulations, pesticide regulations, chemical bans, natural resource management policies, toxic waste restrictions, or sustainable and organic agricultural rules. right to work laws could be challenged as inconsistent with NAFTA's goal of 'upward harmonization.' since any NAFTA member could challenge another country's laws with respect to an issue they deem 'denies economic opportunity,' litigation could soon bog down Federal and State economic initiatives.

U.S. Is Giving Up Its Sovereignty

"I believe the United States should seriously reconsider any agreement which gives up United States sovereignty to any multinational group that will place the needs of international trade over the interests of the American people

"These concerns are not simply the concerns of one Senator from Idaho; they are shared by many. I cannot lightly dismiss the sovereignty of the Federal Government or disregard the 10th amendment to the Constitution and the power within it which is reserved to the States. I cannot, and I will not, vote to approve NAFTA if it infringes on the sovereignty of the State of Idaho.

"Idaho, as a state with magnificent natural resources, suffers from tough environmental regulations that stem from vaguely worded laws. Idahoans do not want any more vaguely written environmental laws that cannot be interpreted, implemented or enforced. Idahoans do not want Mexico and Canada telling them how to protect their land. And Idahoans do not want the EPA Administrator to be the sole person solely looking out for Idaho's interests in an international environmental protection commission. (*Congressional Record*, November 20, 1993, S16696-S16697.

NAFTA Agreement Passes the U.S. Senate

H.R. 3450 passed the U.S. Senate on November 20, 1993 by a vote of 61-38. The vote is reprinted below. On December 8, 1993 President Clinton signed the bill into law.

"The result was announced – yeas 61, nays 38, as follows:

YEAS – 61

"Baucas, Bennett, Biden, Bingaman, Bond, Boren, Bradley, Breaux, Brown, Bumpers, Chafee, Coats, Cochran, Coverdell, Danforth, Daschle, DeConcini, Dodd, Dole, Domenici, Durenberger, Gorton, Graham, Gramm, Grassley, Gregg, Harkin, Hatch, Hatfield, Hutchison, Jeffords, Johnston, Kassenbaum, Kennedy, Kerrey, Kerry, Leahy, Lieberman, Lott, Lugar, Mack, Mathews, McCain, McConnell, Mitchell, Moseley-Braun, Murkowski, Murray, Nickles, Nunn, Packwood, Pell, Pressler, Pryor, Robb, Roth, Simon, Simpson, Specter, Wallop, Warner

NAYS – 36

"Akaka, Boxer, Bryan, Burns, Byrd, Campbell, Cohen, Conrad, Craig, D'Amato, Exon, Faircloth, Feingold, Feinstein, Ford, Glenn, Heflin, Helms, Hollings, Inouye, Kempthorne, Kohl, Lautenberg, Levin, Metsenbaum, Mikulski, Moynihan, Reid, Riegle, Rockefeller, Sarbanes, Sasser, Shelby, Smith, Stevens, Thurmond, Wellstone, Wofford"

(*Congressional Record*, November 20, 1993, pp. S 16712-S16713.)

Clinton Meets with Asian Leaders

With the passage of NAFTA assured in the U.S. Senate, President Clinton traveled to Seattle on November 18, 1993 for a meeting with Asian leaders on global trade issues. The President wasted no time in meeting with Japanese and Asian leaders to pressure them to bring the Uruguay Round discussions on GATT to a successful end. The President felt he had a mandate for Congress to press for greater trade liberalization through the creation of a new World Trade Organization.

GATT Agreement Finalized

The Uruguay Round on GATT was concluded on December 15, 1993 and the Agreement passed Congress on December 1, 1994.

Clinton Eclipses Bush in Foreign Policy

With the passage of NAFTA and GATT, President Bill Clinton eclipsed President George Bush as "Mr. Foreign Policy." While President Bush may have won the Persian Gulf War, that victory pales in comparisons to the importance of NAFTA and GATT to the future freedom, sovereignty and independence of America.

In a single term President Clinton has presided over passage of HR 3450 – a bill to approve and implement the North American Free Trade Agreement and HR5110 – a bill to approve and implement the Uruguay Round Agreements Act. These two bills will have greater impact upon the future of America than any legislation since the New Deal.

Clinton Travels to Summit of the Americas

Upon the successful passage of GATT, the President traveled to Miami for a three day summit with 33 Latin American and Caribbean leaders for the first hemispheric summit since 1967. The purpose of the Miami Summit (December 9-11, 1994) was to lay the "ground work for a huge free-trade zone from Alaska to Tierra del Fuego, Argentina...."

"Clinton, armed with bipartisan support for free trade as embodied in the GATT agreement – which he signs in Washington today – has invited all presidents of the hemisphere except Cuba's Fidel Castro to the three-day Summit of the Americas.

"A target date will be set for creation of an expanded North American Free Trade Agreement – NAFTA with the 'N'...."

"Another expected result is extension of NAFTA to Chile, a Latin American economic success story." (*USA Today*, December 8, 1994, p. 4A.)

Free Trade Pact for the Americas Outlined in Miami

Concerning the opening of the Summit, James Brooke of the New York Times News Service wrote:

"MIAMI – As they began arriving here on Thursday for a huge summit meeting, President Clinton and other Latin American leaders were no doubt relieved that negotiators had resolved a series of sharp disagreements over how quickly to establish a vast liberalized trade zone in the Western Hemisphere.

"But despite a generalized agreement about the desirability of lowering barriers to trade, which is to be the centerpiece of the first Western Hemisphere summit meeting since 1967, there were plenty of signs already that Latin American officials remain skeptical of U.S. intentions on trade.

Date Set to Conclude Trade Talks

"Only after heavy Latin pressure, for example, did the United States agree to set a date for concluding talks for a free trade pact for the Americas – and the date was 2005, well into the future. In addition, the target was for finishing the talks, not for actually lowering the trade barriers themselves.

"For years, Washington has beseeched Latin American countries to open their markets to American products, and in the last few years they have. In the last decade, Latin American nations have slashed trade barriers and made the region the fastest growing U.S. export market in the world.

"It used to be that Latin American leaders were wary of Yankee free traders. Today, they suspect that it is the United States that is losing its free trade zeal and is more interested in protecting its own markets from such imports as Costa Rican garments, Colombian flowers, Argentine steel, and Brazilian orange juice and shoes.

"Instead of signing a declaration of generalities, we should be setting a date to start the hemispheric free trade zone,' said Bolivia's American-educated president, Gonzalo Sanchez de Lozada.

"American trade policy is crucial to Latin America because, with the exception of Cuba, the United States is the largest trading partner for every nation in the area.

"American companies have doubled sales in a decade, making Latin America the only region where the United States enjoys a trade surplus. By the end of the 1990s, the United States expects to export more to Mexico than to Japan, and more to Latin America than to Western Europe.

"But the opening has exacted a price. In two years, Latin America's global trade deficit has doubled to \$20 billion. Latin leaders complain that the Clinton administration is dragging its feet in opening U.S. markets in keeping with its pronouncements in favor of free trade zones." (New York Times News Service, December 8, 1994.)

A Call for Extending Free Trade Throughout Hemisphere

The Summit of the Americas was more successful than planned. The leaders were able to reach agreement on extending NAFTA to the entire hemisphere. According to Richard Alm of *The Dallas Morning News*:

"The political consensus took decades, but the hardest part still may lie ahead.

"The summit of the Americas ended with a clarion call for free trade from Alaska to Argentina, with President Clinton calling for deeds as well as words. But it didn't provide a blueprint on how 34 countries, from the rich United States to the dirt-poor Haiti, can eradicate barriers to trade and investment.

"The action plan merely commits the countries to exploratory talks over the new few months, culminating in a meeting of trade ministers in June. Another meeting is set for March 1996. Only at that time – if then – with the path toward hemispheric integration come into focus.

"What we have is a flight plan that will keep us busy for years to come,' said Jose Angel Gurria, Mexico's foreign minister. 'How we get there will be the biggest issue to be resolved.'

"U.S. Trade Representative Mickey Kantor said the agreement to begin spadework on a Free Trade Area of the Americas laid out 14 areas of discussion on trade. They include reducing tariff and nontariff barriers, agriculture, investment, rules of origin and dispute settlement. The groupings parallel the North American Free Trade Agreement, which joins the United States, Mexico and Canada. In addition, there will be discussions of worker rights and the environment.

"Of course, the negotiations will determine just what we all agree to,' Mr. Kantor said.

Budding Western Hemisphere Trade Zone

"Perhaps the most crucial decision to be made is how to build a Western Hemisphere free-trade area. Countries might join the year-old NAFTA, the largest and most ambitious of the half-dozen regional trade arrangements. Alternatives include bilateral pacts with the United States or mergers between NAFTA and Latin American trade zones, such as Mercosur (Brazil, Argentina, Paraguay and Uruguay) and the Andean Pact (Bolivia, Ecuador, Peru and Venezuela).

"Commerce Secretary Ron Brown indicated in Miami that the United States hasn't yet closed itself off to any of the various entry scenarios. 'Those are all challenges to be faced in the future,' Mr. Brown said.

"Chile chose to join NAFTA rather than negotiate separate deals with the United States and Canada. It already has a free-trade agreement with Mexico.

"Eduardo Aninat, Chile's finance minister, said the next year might persuade other nations to apply for NAFTA membership. 'This exercise will count heavily with other countries in Latin America, how this goes with Chile,' Mr. Aninat said, 'If we go the bilateral way, the number of possible combinations is amazing. We may go the way of the Tower of Babel.'

"By that, he means a hemisphere with a patchwork of trade agreements, which don't quite fit together, complicating rather than simplifying international business.

"Fred Bergsten, director of the Institute for International Economics in Washington, D.C., detects diverse opinions in Latin America and the Caribbean about forging free trade.

"NAFTA accession is the best way to go about it,' he said, 'but that's not the way it's likely to go.'

A Lofty Goal

"In fact, the goal of a single set of trade rules for all of Latin America is a lofty one. The Americas are a diverse region, with wide disparities in income, education and competitiveness. Many countries will enter negotiations with a long list of sensitive industries that will clamor for exception to free trade.

"Mr. Kantor acknowledged as much. 'Countries in the region are at different levels of development' he said. 'That fact has to be taken into account.'

"Owen Arthur, prime minister of Barbados, an island nation in the Caribbean, said small, backward nations will expect an easier path to hemispheric free trade.

International Trade Must Be Carefully Managed by International Institutions

"Trade liberalization needs to be carefully managed,' Mr. Arthur said. 'These measures should include, for the very small economies, favorable market access, a longer phase-in period and the allocation of financial resources in support of integration.'

"The summit proposed to finish negotiations by 2005, which might put full implementation beyond 2020. Some want to move faster. Argentine President Carlos Menem came to Miami urging that negotiations be finished by 2000.

"What will happen in the meantime? Mr. Kantor noted that summit leaders pledged 'substantial progress' by the end of the decade. He acknowledged that the phrase had no specific goals attached to it.

"However, he pointed to the number of negotiations going on with NAFTA and Mercosur, as well as bilateral talks, including three being conducted by Mexico. These will continue – and presumably bear fruit – in the next five years.

"Mr. Bergsten suggests there might be an acceleration of liberalization, especially as the United States and other nations pursue last month's commitment to lower trade barriers among the Asia-Pacific Economic Cooperation countries.

"There is going to be competition between APEC and the Western Hemisphere, and the whole thing will happen a little faster,' Mr. Bergsten predicted.

Establishing International Institutions

"According to Mr. Bergsten, one of the most important issues will involve the institutions that will push free trade forward. NAFTA and the soon-to-expand European Union established their own. The APEC provides annual summits of top leaders to maintain the momentum for liberalization.

"In Miami, Cesar Gaviria, secretary general of the Organization of American States, and Enrique Iglesias, head of the Washington-based Inter-American Development Bank, both pledged the support to the free-trade effort. (*Dallas Morning News*, December 13, 1994, pp. D1, D7.)

Leading U.S. Paper Endorses Free Trade of Clinton Administration

Two days after the Summit of the Americas, *The Dallas Morning News* printed an editorial entitled, 'Spirit of Miami.' In the editorial, the elite perspective on global interdependence and economic integration was vividly presented as the newspaper endorsed trade liberalization in the Americas. It stated:

"The Summit of the Americas, convened by President Clinton in Miami, brought the dream of a prosperous and fully democratic Western Hemisphere a giant step closer to reality.

Convergence of Values

"In a landmark accord, the elected heads of state of the United States, Canada, Latin America and the Caribbean agreed to create a free-trade area stretching from Alaska to Chile. Seizing the opportunity provided by history and the remarkable convergence of democratic values in the hemisphere, the leaders agreed to complete negotiations by 2005, when the Americas would encompass more than 850 million consumers and producers with combined output of \$13 trillion. The free-trade area of the Americas would be the world's largest integrated market.

"Such a design would have been unthinkable even five years ago. But capitalism isn't a dirty word anymore in Latin America, and the United States is wise to encourage the tremendous opening there.

Gathering of Thirty-Five Nations

"Thirty-four of the hemisphere's 35 nations were represented. Cuba's Fidel Castro was conspicuous by his absence. The Communist leader was appropriately shunned because of his stubborn refusal to hold free elections.

"The gathering, accentuated by evening fireworks and sumptuous state dinners, marked a turning point in the history of the Americas. Never has democracy penetrated so deeply. Just 15 years ago, all but two of the 12 South American countries were military dictatorships; Colombia and Venezuela were the only democracies. Marxist Sandinistas were completing their rebellion against Nicaragua's rightist dictator. Mexico was a closed, rigid one-party state.

Economic Interdependence

"Today, only Mr. Castro owes his power to bullets rather than ballots. Respect for human rights and democracy is high. And, in an amazing switch, most citizens of the Americas rightly see free trade and economic interdependence as the surest ways to peace, prosperity and liberty.

"The big question leading to the summit was: Would the leaders accomplish anything? Or would they pay lip service to integration? The fears were aggravated by a Clinton administration that even one week before seemed unsure how it would answer the Latins' free-trade pleas.

"Without question, the leaders rose admirably to the occasion. They agreed to:

"Create the Pan American free-trade area, with a timetable, a deadline and an expectation that 'substantial progress' would be achieved by century's end.

"Expand, improve and then merge the North American Free Trade Agreement, the Southern Common Market and other subregional free trade pacts that have flourished this decade.

"Use the North American Free Trade Agreement as the model for integration.

"For its part, the United States:

"Formally invited Chile to join the North American Free Trade Agreement, a proper reward for the exemplary advances Chile has made in reforming its economy and enhancing its democracy.

"Abandoned the idea of seeking separate agreements with individual countries, which would have encouraged a confusing free trade Tower of Babel in the Americas.

Clinton Administration to Seek Fast Track Authority Again

"Moreover, administration officials indicated that they would ask Congress for 'broad' authority to negotiate free-trade agreements. In other words, they want standing permission to negotiate not just with Chile, but with other countries as well.

"Pan American free trade would give the United States nearly unfettered access to its fastest-growing export market and the world's second-fastest-growing regional economy, after Asia. Latin America buys 44 percent of its imports from the United States; when its tariffs fall – they are, on average, four times higher than U.S. tariffs – the U.S. share of the market should increase. Mr. Clinton predicted

that Latin America would be the United States' most important market by 2005, buying more U.S. products than Western Europe and Japan combined.

"Improved access to Latin markets means more high-wage jobs for U.S. workers. In just 10 months, free trade with Mexico has created 133,000 U.S. jobs, most of which pay better-than-average wages. Mr. Clinton said the anticipated doubling of U.S. exports to Latin America over the next decade would create more than 1 million U.S. jobs.

U.S. Trade Agenda Is Clearly Visible

"The U.S. trade agenda for the next generation is now evident. Having recently won Congress' approval of the new world trade liberalization pact, the United States will seek Pan American free trade by 2005 and free trade in Asia and the Pacific by 2020. The message to Europe: Lower your barriers or be left behind.

"The Americas are on their way to becoming a beacon of hope for the world. As Mexico's President Ernesto Zedillo said, Pan American free trade will contribute to the well-being of all our nations.'

"Mr. Clinton deserves applause for embracing to the Bolivarian vision of a united hemisphere. May Congress and the American people concur. (*The Dallas Morning News*, December 13, 1994, p. A8.)

Congress Could Force Clinton Administration to Use Treaties Rather than Executive Agreements

All during the debate over NAFTA and GATT, members of Congress complained about the fast-track mechanism which they had given the President to negotiate trade agreements. Congress has the power to deny the Executive Branch the authority to place trade agreements under the fast-track mode. If Congress refused to give the President this authority, the Executive Branch would be forced to submit the trade agreements as treaties, rather than Executive Agreements. The treaty method would be more difficult because the Constitution requires 67 votes to pass a treaty. The Executive Branch prefers the fast-track method because it only requires 60 votes and Congress cannot add amendments or reservations and debate is limited.

Congress has abdicated its power and responsibility over foreign commerce to its detriment. Many feel this designation is unconstitutional.

After the Summit of the Americas, the Clinton Administration decided to push for fast-track authority to extend NAFTA and for the ASIAN trade pact.

Until Congress decides to exercise its Constitutional powers over foreign commerce, America will be at the mercy of the elite financial community who are

seeking to integrate the economies of all nations and eliminate the nation-state. In the process, the doctrine of states and national sovereignty will be sacrificed upon the alter of global interdependence and managed trade. America's freedom, sovereignty and independence will become lost.

Part X Media World – Thought Control over the Inhabitants of the Earth

33. The Impact of the Media on America and the World

Part I – Introduction

The impact of the media, especially the television industry, on the attitudes and values of the people in the United States and throughout the world has been monumental indeed. No other media with the exception of written word (books) has had such an impact on altering and transforming the human mind. Professor Thomas R. Dye of Florida State University has noted:

"Television is the major source of information for the vast majority of Americans, and the people who control this flow of information are among the most powerful in the nation. Indeed, today the leadership of the mass media has successfully established itself as equal in power to the nation's corporate and governmental leadership.

"The rise of the mass media leadership to a position of pre-eminence among men of power is a relatively recent phenomenon. It is a direct product of technological change: the development of a national television communication network extending to nearly every home in America. (In 1952 only 19.8 percent of all American homes had TV sets, compared to 99.8 percent in 1972.) Newspapers had always reported wars, riots, scandals, and disasters, just as they do today. But the masses of Americans did not read them – and fewer still read the editorials on these topics. But today television reaches the masses, it is really the first form of mass communication devised by man. And it presents a visual image, not merely a printed word. Nearly everyone watches TV, and over two-thirds of the American public testify that television provides "most of [their] views about what's going on in the world today." Over two-thirds of the American people say that television is the best way to follow candidates for national office.

"Network television news not only reaches a larger audience than newspapers, but perhaps more importantly, it reaches children, functional illiterates, the poor, and the uneducated. The television viewer must see the news, or else turn off his set; the newspaper reader can turn quickly to the sports and comics without confronting the political news. But the greatest asset of television is its visual quality – the emotional impact that is conveyed in pictures. Scenes of burning and looting in cities, sacks of dead American GIs being loaded on helicopters, pathetic bodies of dead Vietnamese children, all convey emotions as well as information. (Thomas R. Dye, "Who's Running America?" *Institutional Leadership in the United States*, Prentice-Hall, Inc. Englewood Cliffs, New Jersey, 1976, pp. 82-83.)

Part II - Concentration of Power in the Media

The media, press and publishing industry, with its incredible power to inform or misinform or to omit certain information is now reaching monopolistic proportions. The immense concentration of power is simply evidence of the corporate takeover movement which is continuing to engulf the Western world.

Centralized control of the media brings up the matter of censorship and the editing policies of the corporate executives and editors. Although most media corporations decry censorship, the truth is they do consistently exercise control over policy.

It is obvious what direction the media world is heading. Four or five large corporations will control what Americans see, hear, and read in the future. The strength of this combination lies in its capability to control the flow of ideas and information throughout the world. Professor Dye exclaims:

"The power to determine what the American people will see and hear about their world is vested in three private corporations – the American Broadcasting Company (ABC), the National Broadcasting Corporation (NBC), and the Columbia Broadcasting System, Inc., (CBS). These networks determine what will be seen by the mass viewing audience; there is no public regulation whatsoever of network broadcasting. Individual television stations are privately owned and licenses to use public broadcast channels by the Federal Communications Commission. But these stations are forced to receive news and programming from the networks because of the high costs involved in producing news or entertainment at the local station level. The top officials of these corporate networks, particularly the people in charge of the news, are indeed "a tiny, enclosed fraternity of privileged men." Nicholas Johnson, a member of the Federal Communications Commission, and a self-professed liberal, has said:

"The networks, in particular...are probably now beyond the check of any institution in our society. The President, the Congress of the United States, the FCC, the foundations, and universities are reluctant even to get involved. I think they may now be so powerful that they're beyond the check of anyone.

"The men at the top of the news media do not doubt their own power. They generally credit themselves with the success of the civil rights movement: the dramatic televised images of the nonviolent civil rights demonstrators of the early 1960s being attacked by police with night-sticks, cattle prods, and vicious dogs, helped to awaken the nation and its political leadership to the injustices of segregation. These leaders also credit TV with "decisively changing American's opinion of the Vietnam War," and forcing Lyndon Johnson out of the presidency. The director of CBS News in Washington proudly claims:

"When television covered its "first war" in Vietnam, it showed a terrible truth of war in a manner new to mass audiences. A case can be made and certainly should be examined, that this was cardinal to the disillusionment of Americans with this war, the cynicism of many young people towards America, and the destruction of Lyndon Johnson's tenure of office."⁶

The Impact of Television News

"Television news, together with the Washington press corps, also lays claim, of course, to the expulsion of Richard Nixon from the presidency. The *Washington Post* conducted the "investigative reporting" that produced a continuous flow of embarrassing and incriminating information about the president and his chief advisers. But, it was the television networks that maintained the continuous nightly attack on the White House for nearly two years because of the Watergate Affair. Richard Nixon's approval rating in public opinion polls dropped from an all-time high of 68 percent in January 1973 following the Vietnam Peace Agreement to a low of 24 percent less than one year later.

"Yet the leadership of the mass media frequently claim that they do no more than "mirror" reality. Although the "mirror" argument contradicts many of their more candid claims to having righted many of America's wrongs (segregation, Vietnam, Watergate), the leadership of the three television networks claim that television "is a mirror of society." Frank Stanton, president of CBS, told a House committee: "what the media does is hold a mirror up to society and try to report it as factually as possible." When confronted with charges that television helped to spread urban rioting in the late 1960s, Julian Goodman, president of NBC, told the National Commission on the Cause and Prevention of Violence that "the medium is being blamed for the message."⁷

"Of course the mirror analogy is nonsense. Newsmen decide what the news will be, how it will be presented, and how it will be interpreted. As David Brinkley explained, "New is what I say it is. It's something worth knowing by my standards." Newsmen have the power to create some national issues and ignore others) elevate obscure men to national prominence) reward politicians they favor and punish those they disfavor. The best description of the news making power of television is found in a book significantly entitled *News from Nowhere* by Edward Jay Epstein, who explains: "The mirror analogy further tends to neglect the component of "will," or decisions made in advance to cover or not to cover certain types of events. A mirror makes no decisions, it simply reflects what occurs in front of it; television coverage can, however, be controlled by predecisions or "policy"....

"Policy can determine not only whether or not a subject is seen on television but also how it is depicted....

"Intervention by the producer or assistant producers in decisions on how to play the news is the rule rather than the exceptions.

The Principle Source of Distortion in the News

"The principal source of distortion in the news is caused by the need for drama, action, and confrontation, to hold audience attention. NBC news executive producer Reven Frank advised his producers in a memorandum: "The higher power of television journalism is not in the transmission of information but in the transmission of experience – joy, sorrow, shock, fear – these are the stuff of news.

"Ninety percent of the national news that reaches the American public arrives from ABC, NBC, and CBS. Local television stations do not have the resources to produce their own national news, and consequently largely restrict themselves to local news coverage. The three networks "feed" approximately 600 local affiliated stations, with "The Evening News." These stations generally videotape these programs for rebroadcast later in the evening, usually in truncated form, on the local news program. Moreover, the networks also own key television stations in the nation's largest cities. While the Federal Communications Commission limits station ownership by the networks to no more than seven stations, these network-owned stations are concentrated in the largest "market" cities. The twelve largest "market" cities contain 38 percent of all "TV households" in the nation, and these cities have network owned stations. (Dye, pp. 83-86.)

Part III – The Media Spreads Throughout the World

The media industry is becoming a global industry. The impact of such media giants as ABC, CBS and NBC reach throughout the world as television shows are rebroadcast. Its power to inform or not to inform, to suppress or enlighten is now in the hands of the corporate directors and international bankers which control the media.

Part IV – Ownership of the Networks

The corporate directors, international bankers, and investment bankers realize that if they are to be successful in their endeavor "to create a world system of financial control in private hands able to dominate the political system of each country and of the world as a whole," (Quigley, p. 324.) they must control the media (television, radio, newspapers, magazines, publishing houses, etc.). They also realize that if they are to successfully saturate the world with the ideologies of finance capitalism, monopoly capitalism, civil law, secularism and socialism they must control key media conglomerates. Over a period of many decades and through the process of merger and acquisitions, the elite of the world has gradually gained control of the media outlets in the world.

Seizing Control of the Publishing Industry

Through this control they are able to disseminate the information, values, ideology, principles, philosophies, etc., which they want the masses of the world to accept. This they have been doing. They first seized control of the publishing industry – the newspapers – wire services and magazines – journal and book publishing companies. They then began distributing books which were conducive to their long-range goals. At the same time, they began suppressing books on individualism, national rights, true Christian principles, property rights, limited government, constitutional government, etc.

Seizing Control of Radio and Television

When the radio and television industry arose, these same elite powers seized control over them and began the same process all over. When one turns on the radio or television or picks up a journal, magazine or book, the chances are very high that they will contain information, stories, etc., which promote the principles of secularism, finance capitalism, monopoly capitalism, civil law, socialism or corporate socialism.

The media of the world have now become sophisticated outlets for the dissemination of these theories and ideologies. These ideologies are conducive to the construction of a "New Imperial System" administered by the elites of the world. The media is also utilized to discredit, suppress, and ridicule opposing viewpoints.

Control Over the Media

Since the media is controlled by the elite, they promote the values and beliefs of the elite.

A number of studies have documented the control of the media. Besides the words of Professor Dye, Peter L. Brosnan has written an interesting article revealing the real power behind the media. In an article entitled, "Who Owns the Networks?", he said:

"Ownership of American news media in general, and broadcast media in particular, is now for the most part concentrated in the hands of a few large corporate conglomerates. Among the largest of these are the three networks, but it is less often noted that their ownership has, in turn, become concentrated in a relatively small number of financial institutions, especially banks, which often control the majority of voting stock. The full extent to which these institutions dominate the broadcasting industry is difficult to determine, because various loopholes in federal laws make possible a complex system of front accounts and disguised ownership. However, a potential for conflict of interest and outright control of the media exists. Several private and Congressional studies have called

attention to the possibility, but it is understandable that they have been given little publicity. No action has resulted....

"...Concentrated ownership of communications media threatens the free exchange of information and opinion vital to a democratic society. When the ownership is in the hands of banks, themselves heavily vested interests, there is a good reason for alarm.

"Current FCC procedure requires the networks, along with all other FCC licensees, to file an annual ownership report with the commission. It must list every owner of more than 1% of the outstanding stock in the corporation, i.e., the network, and must be available for public inspection. Aside from a few large individual owners, most of the listed stockholders are financial institutions. On the surface the reports seem to be accurate summaries of network ownership, but that is not the case.

"By using cumulative investment accounts, known as nominees, banks and other large stockholders can hide a technique of convenience, a discretionary agreement with an underlying owner by which the trustee (the bank) votes the stocks assigned to the trust, thereby exercising control since it holds the shares in trust agreement. A nominee owning less than 1% of the stock in a network need not report its holdings to the FCC. Thus, by spreading their holdings over a number of such accounts, banks can conceal the full extent of their interest in the corporation from the FCC and the public.

Disclosure of Corporate Ownership

"A 1973 Senate report on disclosure of corporate ownership, issued by Sens. Edmund Muskie and Lee Metcalf, concluded: "The holdings of institutional investors, especially banks, are often hidden from view of regulators and the public through use of multiple nominees.... The consequence. . . is a massive coverup of the extent to which holdings of stock have become concentrated in the hands of very few institutional investors, especially banks" (underlining added). On the subject of media stocks, the report noted: "The potential implications of concentrated ownership by a group of financial institutions in the broadcasting and publishing industries are so great as to merit special attention. These problems would be potentially more intense if the same group of financial intermediaries held a significant proportion of the outstanding voting stock of two or more large competing companies." Several institutions do indeed hold stock in more than one network, and at least five (Chase Manhattan, Prudential, Chemical Bank, Citibank and Bankers Trust, which among them hold 15% of ABC, 12% of CBS and 8% of RCA/NBC) own shares in all three.

Power Is Concentrated in a Few Institutions

"In addition to holding stock, many of these same institutions are agents or trustees for the debentures, or debts, of the networks. This arrangement places a great deal of power in the hands of a few institutions, since in order to assume control it is not necessary to own an outright majority of stock. When the shares in a company are widely held, control of a relatively small block of stock by a single institution, or by a few who are like-minded, assures disproportionately large influence within the company. The House Banking and Currency Subcommittee and the Securities and Exchange Act of 1932 (as amended in 1970) consider 5% (in some cases as little as 1% or 2%) to be sufficient for great influence, if not outright control.

U.S. Laws Changed to Accommodate Banks

"This fact was recognized long ago by the FCC, which originally limited a bank's ownership to no more than 1% of the stock in a given broadcasting company. In 1972, however, the FCC raised the limit to 5%. It did so because so many banks were violating the 1% rule that, to comply with it, nineteen of them would have been forced to divest themselves of nearly \$1 billion in stock. In other words, since the banks would not obey the law, the law had to be changed. Actually, FCC rules now permit banks to own far more than 5%, provided they submit a 'disclaimer of intent to control' a meaningless legal formality. They have, in effect, been given carte blanche to control the nation's broadcasting companies.

"The banks, of course, deny any interest in controlling network policy, but the question is whether, as a society, we need or should permit the risk of such abuse. Those who argue that no action need be taken until there is abundant evidence of abuse fool themselves. As former FCC Commissioner Nicholas Johnson has pointed out: 'Abuse is very hard to show, and there is no institution in our society that regularly examines the functioning of the mass media to determine whether these abuses occur.... Legitimate editorial judgment to include, alter, or omit information is almost impossible to distinguish from similar decisions motivated by corporate economic self-interest.'

Influence Over Programming

"Print journalism has long acknowledged its responsibility to place public interest ahead of maximum profit. That the networks have no such policy is apparent to any observer of the ongoing ratings wars, current programming, or profit figures. Simply by assuming ever greater profits from the networks, stockholding banks exert a demonstrable influence over programming. As 'bottom-line' consciousness increases, and the business school graduates with their demographics and pocket-calculator mentalities gain more and more say on the choice of material, certain types of programs just don't get on the air. Documentaries, or responsible, in-depth news reports, for example, usually earn

poor ratings and, if controversial, risk loss of sponsors or audiences. Dollar sagacity, then, dictates their omission from seasonal schedules. Thus, in a very real way, bottom-line responsibility to stockholders becomes a form of censorship.

Ownership of Three Major Networks

"A look at 1977 ownership figures for the three major networks reveals the extent of the financial community's interest in, and potential influence over, these companies.

NBC

RCA/NBC. Since the National Broadcasting Company is a wholly owned subsidiary of RCA Corp., ownership reports filed for individual NBC stations reflect the ownership figures of the parent company. According to the 1977 report for KNBC-TV, only four holders of record (Chase Manhattan, St. Louis Union Trust, Merrill Lynch, and one individual) own more than 1% of the stock of RCA. Together, they control nearly 10% of the stock outstanding. This, to be sure, places a controlling interest in the hands of a relative few, but it is a tip-of-the-iceberg figure for RCA, whose ownership information has proved misleading in the past.

"In 1972, for example, RCA told the FCC that only six stockholders owned more than 1% of its stock, holding a total of 13.7% of stock outstanding. That same year, the Muskie/Metcalf investigate group obtained from RCA a list of its 'Thirty Top Stockholders.' It included a number of nominee accounts, each of which held less than 1% of stock. From this list emerged a picture of RCA ownership considerably different from what the corporation had reported to the FCC, a picture which exposed the glaring deficiencies in the FCC's ownership reporting procedures.

"Not listed, for example, was First National Bank of Chicago, which held a full 2% of RCA stock spread over three nominee accounts, each having less than 1%. Similarly, First National City Bank divided its 1.1% of RCA stock between two nominees. Chase Manhattan, through its nominee Egger & Co., held an additional unreported 0.5%, and Chemical Bank, with 250,000 shares, also avoided disclosure.

"In total, the 'Thirty Top Stockholders' list showed that nearly 25% of RCA was controlled by nine banks and a handful of insurance companies and individuals. And this, too, is only a partial figure, based as it is on a list of only thirty stockholders in a corporation with more than 250,000 stockholders. A further study, made in 1973 by The Network Project, a Columbia University research group, concluded that '30% of RCA voting stock is controlled by eleven banks and a handful of investment and insurance companies, whose ownership is spread over a large number of [nominee] accounts.

ABC

"ABC. The history of the American Broadcasting Company, is somewhat different from that of its sister networks, a fact reflected in stockholder figures. RCA and CBS started up in the 1920s and were for many years tightly held companies. ABC was created in 1944 when the Justice Department forced RCA to divest itself of one of its two networks, the Red and the Blue. E. J. Noble, the 'Life-Savers' tycoon, bought the Blue network for \$8 million, and it became ABC. Four years later, the company made a public offering of 500,000 shares of stock, which sold out at \$9 a share in four hours. In following years, ABC became an attractive investment and was soon far more dominated by financial institutions than CBS or RCA.

"Today, with almost 18 million shares of stock held by more than 16,000 shareholders, nearly 80% of ABC is held by a relative handful of banking interests. (See table.)

CBS

CBS. The stock of Columbia Broadcasting System is generally assumed to be widely held, with nearly 28 million shares in the hands of 38,000 shareholders. However, according to the 1977 ownership report, eight banks, four funds and three members of the board of directors own nearly 35% – an unchallengeable controlling interest. Further figures from *Vicker's Guides* to bank trusts, insurance companies and investment companies show that about 200 financial institutions – roughly 0.5% of CBS shareholders – control 62.66% of CBS stock. Again, as with RCA, this should be considered a partial figure since further amounts are likely held in nominee accounts of less than 1%.

"In 1973 the Muskie/Metcalf group found that 14% of CBS was controlled by Chase Manhattan Bank, which is, of course, the cornerstone of the Rockefeller financial group, with David Rockefeller as chairman and president. ("Does CBS Have a Friend at Chase Manhattan?" *Variety* asked in a headline when the report was issued.) According to the latest ownership report, Chase now owns less than 1%, although there is reportedly much more in small nominee accounts. *Vicker's Guide* reports that Chase has 1.19% of CBS in its Trust Department. It is worth noting that Chase and the other Rockefeller institutions are among the largest holders of network stock, with substantial interests in all three networks.

Trilateral Commission Report Calls for Protection of Government from the Press

"What makes this interesting, if not ominous, is the publication of *Crisis of Democracy*, a report on the 'governability of democracies' to David Rockefeller's Trilateral Commission. In a section, 'Restoring a Balance Between Government and Media,' the report complains that 'the press has taken an increasingly critical

role towards government and public officials.' To remedy the situation '*significant measures are required* to restore an appropriate balance between the press, the government, and other institutions in society...there are obviously important [First Amendment] rights to be protected, but the broader interests of society and government are also at stake' (italics added). The report then calls for legislation to 'regulate' the press, such as assuring government 'the right and ability to withhold information at the source.... The courts should consider moving promptly to reinstate the law of libel as a necessary and appropriate check upon the abuses of power by the press. Journalists should develop their own standards...the alternative could well be regulation by the government.' Or regulation by the stockholders?

Concentration of Power in America

"To be sure, broadcasting is not the only industry in which the market forces of the past twenty years have encouraged a heavy concentration of ownership; it exists as well in manufacturing, transportation and utilities. But as Joe Saltzman, veteran broadcaster and producer, now head of the Broadcasting Department at the School of Journalism, University of Southern California says: 'The concentration of such power is frightening in any American business and it is critical in the broadcasting industry.' (Peter L. Brosnan, "Who Owns the Networks?", *The Nation*, November 25, 1978, pp. front cover, 577-579.)

Who Owns ABC

"1977 Ownership Report to FCC

"Total Shares Outstanding: 17,886,000

"Total Shareholders: 16,184

Shareholders % of Total Shares

Bankers Trust 6.24

Chase Manhattan 4.38

First National Bank, Boston 3.28

plus 135,000 shares managed by Putnam Management 0.85

Irving Trust Company 4.11

Directors & Officers 3.32

State St. Bank & Trust 3.06

Morgan Guaranty 2.85

Citibank 2.41
 Bank of New York 2.32
 United Missouri Bank of Kansas City 1.34
 plus 35,000 shares managed by Supervised Investment Services .20
 State Teacher's Retirement System, Ohio 1.51
 Detroit Bank and Trust 1.02
 plus 75,000 shares managed by Mass. Financial Services, Company .42
 Chemical Bank 1.41
 Merrill Lynch 1.23
 Manufacturer's National Bank, Detroit 1.01
 ___Total 40.96%

Not reported to the FCC, but listed in *Vicker's Guides* to:

Insurance Companies, Bank Trust Portfolios:

1st Penna. Bank 2.42
 Continental Illinois 1.30
 National Bank
 Manufacturer's National Bank of Detroit 1.22
 (In addition to 180,770 shares reported to the FCC)
 Aetna Life Insurance 0.97
 Prudential Insurance 0.73
 Aetna Casualty & Surety 0.19
 65 investment funds 18.10
 42 insurance companies 5.80
 27 banks 5.60

Total 36.33%

Thus an incredible 77.29% of ABC common stock is held by a tight circle of financial

institutions, comprising less than 1% of all ABC stockholders.

(Peter L. Brosnan, p. 579.)

Part V - Elite Control of the Media

In 1980, Laurence H. Shoup wrote a book entitled, *The Carter Presidency and Beyond: Power and Politics in the 1980s*. He described the elite control of the media as follows:

"The most influential media corporations of the United States are all controlled by the Eastern Establishment – the dominant sector of the American ruling class – and represent a main source of this Establishment's ideological hegemony over American society. Generally speaking, the more important the media outlet is, the more connections its owners and directors have to the other central institutions of this establishment. Here we will cover the ownership and control of the six most influential media corporations of the Eastern Establishment, in roughly descending order of importance.

The New York Times

"The *Times* is owned by the Sulzbergers, an upper-class family of the highest social standing. Family members attend the right schools and colleges, are patrons of the arts and education, and are members of the *Social Register* and clubs like the Century and Metropolitan. As of 1974-75, Sulzberger family members owned about 70 percent of the *Times* Class B stock which controls 70 percent of voting the Board of Directors. Another nearly 25 percent of Class B stock is held in the *New York Times*' own Treasury. Family members also hold almost 40 percent of Class A stock, which elects the remaining 30 percent of the Board of Directors. The chairman and president of today's newspaper is Arthur Ochs Sulzberger, who is also a member of the Council on Foreign Relations. As of 1976 three other family members sat on the eleven-person board of directors and several additional family members were employed by the company in top positions. One of the family on the *New York Times* board of directors, Marion Sulzberger Heiskell, is married to Andrew Heiskell, chairman of the board of *Time* magazine.

"The board of the *New York Times* during 1975 and 1976 included executives or directors of Morgan Guaranty Trust, Bankers Trust, American Can, and Bristol-Meyers; as well as Cyrus Vance, vice chairman of the CFR and a Trilateral Commissioner; James Reston, a member of the Century and Metropolitan Clubs and active in the Council of Foreign Relations for nearly thirty years' CFR member

and CED trustee Richard L. Gelb; and CED trustee and Links Club member William F. May. John B. Oakes, editorial page editor of the *Times* and a member of the owning family, is a member of the CFR and the Century and Cosmos Clubs. All these connections clearly tie the *New York Times* with the dominant element of the American ruling class.

Time Magazine

"*Time's* ownership structure is more complex than that of the *New York Times*. Several families and New York banks have significant voting rights in the corporation. The key owners of *Time* are the Luce, Larson, Temple and Keeler families and their foundations, trust and funds, which hold over 18 percent of *Time* common stock. All four of these families have direct representation of *Time's* Board of Directors. In addition, seven banks control 23.5 percent of *Time* stock, led by Morgan Guaranty and Chase Manhattan with 7.4 percent and 5.5 percent respectively.... *Time*, like the *New York Times*, is intimately connected with Eastern Establishment groups like the CFR and Trilateral Commission. As of 1975 two Trilateral commissioners sat on *Time's* board – *Time's* editor-in-chief Hedley Donovan, who is also a CFR director, and corporate lawyer Sol M. Linowitz, Kirbo friend, Thomas J. Watson, Jr. of IMB, was also a member of the board. Seven of *Time's* directors are also members of the Council on Foreign Relations, several are in the *Social Register* or are CED trustees, Links Club members, and university trustees. They direct corporations like Bank of America, Chemical Bank, First National City Bank of Chicago, Colgate-Palmolive, Continental Oil, Standard Oil of California, Kaiser Steel, Mobil Oil, IBM, Bankers Trust, Pan American, Caterpillar Tractor, and others. *Time* is thus very well connected to the Eastern Establishment and is one of its main media outlets.

Columbia Broadcasting System

"CBS was created nearly fifty years ago by William S. Paley, who has systematically exercised power of this multibillion dollar corporation up to the present time. As chairman, Paley still rules the company, deciding who will fill the top management positions and even, in some cases, what programs will be aired. As of 1978 Paley and his family owned and voted 6.31 percent of CBS stock, by far the largest single block of stock. Two other CBS directors control 1.67 and 1.18 percent respectively. Paley is, of course, immensely wealthy, with personal assets estimated at over \$100 million. He is also intermarried with the Cushing family of Boston, making him an in-law of New York's upper class Whitney and Astor families. While Paley still controls the biggest individual block of CBS stock, eleven large banks, mostly headquartered in New York, now hold in trust 38.1 percent of CBS stock. The Rockefeller bank, Chase Manhattan, holds by far the biggest bank block, 14.1 percent and Robert O. Anderson, chairman of Atlantic-Richfield, sits on both boards. An additional Rockefeller-CBS tie is provided by CFR member and *Social Register* listee Rosell L. Gilpatric, who is a director of

both Eastern Airlines and CBS. Paley himself is a long-time active member of the Council on Foreign Relations and CFR director William A. M. Burden, a *Social Register* listee, is also on the CBS board. Six additional CFR members are on the CBS board, including, until the fall of 1976, CBS president Arthur R. Taylor, who was additionally a member of the Trilateral Commission. As is the case of the *New York Times* and *Time*, CBS directors sit on a host of other corporate boards, are trustees of CED, American Assembly, and elite universities, and belong to the prestigious clubs and associations of the Eastern Establishment.

Los Angeles Times

"Control of the *Los Angeles Times* has been in the hands of the Chandler family since the nineteenth century. The current publisher, Otis Chandler, is the great-grandson of Harrison Gray Otis, the first publisher of the newspaper. As is the case with CBS and *Time*, eastern and midwestern banks also control voting rights to significant ownership blocks of *Los Angeles Times* stock, amounting to 19.8 percent as of 1974. This percentage does not appear to be high enough, however, given the Chandlers' large stock holdings in the company, to exercise much influence. With one exception, the only individuals included in the official list of stockholders with 1 percent or more of *Times* stock as of September 1977 are the seven trustees of Chandler trusts numbers one and two. These include Otis, Harrison, and Bruce Chandler, all directors of the *Times*, as well as May Chandler Goodan and Ruth Chandler Crocker. Another entry, Chandis Securities, is a Chandler family holding company, with Harrison Chandler as chairman and president. The official list of large stockholders is rounded out by eight banks, three mutual funds, two stock exchanges, one insurance company.... None of these latter institutions appears to be represented on the *Times* board of directors.

"The *Los Angeles Times* is less well connected to the institutions of the Eastern Establishment than the three media mentioned above.... The key links in 1976 included Trilateral Commissioner and CFR member Harold Brown, a member of the *Los Angeles Times* board, as well as a director of IMB with Watson and Vance. Otis Chandler is also a director of Pan American Airways as was Vance.... *Los Angeles Times* board members are directors of corporations like American Airlines, Ford, Bank of America, and various west coast corporations.

Newsweek

The Washington Post, which owns *Newsweek* magazine, has been in the hands of the Meyer-Graham families since the 1930s when financier Eugene Meyer purchased the newspaper. The two families are united in the person of Katharine Graham, Meyer's daughter and current chairperson of the Washington Post Company. The *Post* has few stockholders outside these two families; banks control only 1 percent for example. The list of owners of 1 percent or more of *Post* stock is dominated by five Grahams and five Meyers, headed by Katharine and Donald F.

Graham, both directors of the company. Unlike the media corporations mentioned above, the *Post* had no direct Trilateral Commission connection during 1975. Other Eastern Establishment ties were strong, however, through Katharine Graham, who was a CED trustee, and *Post* directors Nicholas DeB. Katzenbach, a CFR and IBM director, and Arjay Miller, a Wells Fargo Bank director who joined the Trilateral Commission sometime in 1976 or early 1977.

The Wall Street Journal

"The daily operation of this newspaper is in the hands of professional journalists, but a few families control the ownership and exercise ultimate direction. Available information indicates that control of Dow Jones and Company, the parent corporation of the *Wall Street Journal*, *Barron's*, and the *National Observer*, is in the hands of the descendants of former Dow Jones president Hugh Bancroft, which wise was a member of the Barron family, one of the founding families of Dow Jones. The list of owners of 1 percent or more of Dow Jones stock is dominated by the trusts, trustees, and relatives of Jane Bancroft Cook and Jessie Bancroft Cox, both directors of Dow Jones. Another director, James N. White, is a trustee of a Jan Bancroft Cook trust. Three members of the Ottaway family also jointly own 1 percent or more and have a family member on the board, but they are mentioned only once in the official list of large stockholders. In contrast, the Bancroft-Cox-Cook wills, agreements, and trusts add up to seven separate entries on the published list of large stockholders, together making up a complex set of relationships between several banks, lawyers, and beneficial owners.

"An official history of the company written in the late 1960s indirectly confirms that the Bancroft family controls Dow Jones by stating that fully two-thirds of the outstanding shares of stock are owned in trusts by the descendants of early owners. The eight remaining directors of Dow Jones...include Trilateral commissioner J. Paul Austin, three members of the Social Register, two members of the CFR, two members each of the Centry Association and Metropolitan Club, a CED trustee, and directors of Mobile Oil, American Express, Caterpillar Tractor, IBM, General Foods, and Royal Dutch Shell, the last five having at least one Trilateral commissioner on each of their board of directors. Thus the *Wall Street Journal* is almost as closely connected to the same Eastern Establishment network as our other news media.

"The ownership and interconnections of these media corporations illustrate how closely intertwined are the elite media in the United States. They are intimately linked with each other and with many leading corporations as well as with the most important policy planning organizations of upper-class America. One example of these interconnections is IBM, a corporation which has common board members with the *New York Times*, *Time*, *Los Angeles Times*, *The Wall Street Journal*, and the *Washington Post / Newsweek*. (Laurence H. Shoup. *The Carter Presidency and*

Beyond: Power and Politics in the 1980s, Palo Alto, California: Ramparts Press, 1980, pp. 305-309.)

Part VI - Concentration of Power in the Newspaper Industry

Concentration of power over the daily newspapers of the world has been occurring almost since their inception. Besides the collection of news, the newspaper industry provides excellent financial and economic intelligence to the owners and publishers. Professor Dye describes the newspaper industry in America as follows:

"The nation's 1,748 daily newspapers get most of their national news from the Associated Press (AP) and United Press International (UPI) wire services, although the larger newspapers and newspaper chains also disseminate their own national news. Radio stations also rely heavily on AP and UPI. One large radio station admitted to filling its newscasts "90 percent with verbatim items from UPI teletype." Of course, local newspaper can "rewrite" national news stories to fit their own editorial slant, and they usually write their own headlines on the national news. But the news itself is generated from an extremely small cadre of people at the top of the media industry.

"Concentration is increasing in local newspaper ownership, as more and more local papers are being taken over by the major newspaper chains. Ten newspaper chains account for one-third of the total newspaper circulation in the United States. These chains, in order of their total daily circulation, are: Tribune Company, Newhouse, Scripps-Howard, Knight Newspapers, Hearst Corporation, Gannett Newspapers, Times Mirror Company, Dow Jones, Ridder, and Cox Enterprises.

"...Leaders in positions of power in the mass media include the presidents and directors of Columbia Broadcasting System, Inc. (CBS television), American Broadcasting Company (ABC television), National Broadcasting Company (NBC television), New York Times Company (*New York Times*), Washington Post Company (*Washington Post*, *Newsweek Magazine*), Time, Inc. (*Time*, *Life*, *Sports Illustrated*, *Fortune* magazines), Associated Press, United Press International, Newhouse (*Denver Post*, *Cleveland Plain Dealer*, etc.), Hearst Corporation (Los Angeles, San Francisco, Baltimore, Boston, Albany, Seattle, San Antonio, etc.), Scripps-Howard, Tribune Company (*Chicago Tribune*, *New York Daily News*, *Orlando Sentinel*, etc.), Field Enterprises (*Chicago Sun-Times*, *Chicago Daily News*, etc.), Dow Jones (*Wall Street Journal*), Times Mirror (*Los Angeles Times*, etc.), Ridder, Knight Newspapers, Inc. (*Detroit Free Press*, *Miami Herald*, *Philadelphia Inquirer*, etc.), Cox.

"There are 213 presidents and directors of these institutions." (Dye, pp. 86-87.)

Part VI - Biographical Sketch of Media Leaders

Professor Dye next gives the reader a brief biographical sketch of some of the leaders of the media in the United States. It should be pointed out that his comments were made in 1976. There may have been changes since that time in officers, etc., of the leading media conglomerates. He wrote:

"Who are the men who govern the flow of information to the nation? Let us examine a few brief sketches of those in the top leadership positions in the major media institutions.

"William S. Paley. Chairman of the board, Columbia Broadcasting System Inc. Attended Western Military Academy, University of Pennsylvania. Began work in father's cigar company, but in 1928 at age 27 purchased CBS for \$400,000. Recruited Edward R. Murrow to develop news policy for CBS, and supported Murrow's successful efforts to make television news an independent political force in America. Paley actively opposed creation of Federal Communications Commission; and over the years helped to prevent its intrusion into network broadcasting. Established the first regular schedule of television broadcasting in the U.S. in 1941. A trustee of the Museum of Modern Art, Columbia University, Resources for the Future, Inc., Bedford-Stuyvesant Development Corp. Past chairman of the United Jewish Appeal.

"Roy E. Larson. Chairman of the board of Time, Inc., publishers of *Time*, *Life*, *Fortune*, *Sports Illustrated*. Attended Boston Latin School, Harvard College. Was hired by classmate Henry Luce, owner of Time, Inc., in 1922 to handle financial matters; rose to president in 1939. Is a trustee of Committee for Economic Development, Ford Foundation, New York Public Library, and a former trustee of Harvard University.

"Arthur Ochs Sulzberger. Publisher and president, *New York Times*. Son of the *Times* board chairman and grandson of the newspaper's founder. Attended Loomis school and Columbia University. A corporal in World War II, but assigned as headquarters aide to General Douglas MacArthur. Began as a reporter with the *Times* in 1953 and became president in 1963. A director of the New York Times Co., the Chattanooga Publishing Co., the Spruce Falls Power and Paper Co. of Toronto, and the Gaspesia Pulp and Paper Co. of Canada. A trustee of the Boy Scouts of America, American Association of Indian Affairs, Columbia University, and the Metropolitan Museum of Art.

"Julian Goodman. President, NBC. Attended public schools in Glasgow, Kentucky, and Western Kentucky University. Began as a newswriter for NBC in 1945; moved up to become Washington news manager in 1950. Recruited Chet Huntley and David Brinkley and pioneered in television coverage of national party conventions. Produced the Nixon-Kennedy TV debates in 1960, and became president of NBC in 1966. Helped to inaugurate the "news special" and the

"documentary"; is a leading exponent of the notion that television should pay "more attention to analysis and interpretation."

"Robert W. Sarnoff. President of RCA (Radio Corporation of America). Former president and director of NBC. Son of David Sarnoff, chairman of Board of RCA (which owns NBC). Attended Phillips Andover Academy and Harvard. Served in the Navy in World War II as communications officer for the Chief of Naval Operations, joined NBC in 1948, and became president in 1955. Regards his own documentary *Victory at Sea* as most personally satisfying undertaking. Is also director of Manufacturer's Hanover Trust, and Random House, Inc., and a trustee of John F. Kennedy Library, Boston University. Franklin and Marshall College, Roper Public Opinion Research Center. and Williams College

"Leonard H. Goldenson. President, ABC. Attended Harvard College and Harvard Law School. Began as an attorney for Paramount Pictures in Hollywood and became president of Paramount Pictures and United Paramount Theatres. In 1953, merged Paramount and ABC and became president of ABC. Also invested in Walt Disney Productions, started the popular *Mickey Mouse Club TV* shows. Hired top ABC news commentators himself. Is a director of United Cerebral Palsy Association, John F. Kennedy Library, Lincoln Center for Performing Arts, Will Rogers Memorial Hospital, and United Jewish Appeal.

"Frank Stanton. President CBS. Attended public schools in Dayton, Ohio, then Ohio Wesleyan University: Ph.D. in psychology, Ohio State University, 1935. Sent his dissertation on radio listening behavior to CBS and won a job in its research department. Later worked with Paul F. Lazarfeld of Columbia to develop better methods of rating program audiences. In 1946, William S. Paley asked Stanton, then 38, to become CBS president. Paley and Stanton together established CBS as the largest advertising and communications corporation in the world. Stanton introduced diversification in CBS; invested in a Broadway show, *My Fair Lady*, and earned \$100 million. Later purchased the New York Yankees. Is a leading opponent of the "equal-time" rule of the FCC requiring stations to give equal time to political candidates. A chairman of the RAND Corp., and trustee of Rockefeller Foundation, Center for Advanced Study of the Behavioral Sciences, Lincoln Center for the Performing Arts, and Stanford Research Institute.

"Hedley Donovan. Editor-in-chief, Time, Inc. University of Minnesota, Rhodes scholar, Oxford. Began as reporter for *Washington Post*, and later *Fortune Magazine*. Became Time, Inc. editor-in-chief, 1964 Trustee of New York University, Carnegie Foundation. Member of Council of Foreign Relations.

Other top corporate directors of the media include Robert Lovett, CBS (former secretary of defense, senior partner of Wall Street investment firm of Brown Brothers, Harriman & Co., a director of North American Rockwell, Union Pacific Railroad, Carnegie Foundation and (M.I.T.); Frank Pace, *Time* (former secretary of

the Army, a director of Fidelity Life Insurance, Colgate-Palmolive, Continental Oil). Pace has also been named chairman of board of the Corporation for Public Broadcasting designed to use federal funds to produce shows for public TV stations. Also John W. Gardner, who serves on the Time, Inc. board; he was former secretary of Health, Education and Welfare and now heads Washington's heaviest spending lobby group, the liberal-oriented Common Cause.

Katharine Graham: The Most Powerful Woman in America

"Katherine Graham, the owner and publisher of the *Washington Post* and *Newsweek Magazine*, was probably the most powerful woman in American even before Watergate. But certainly her leadership of the *Post*, which did more than any other publication to force the resignation of the president of the United States, established Ms. Graham as one of the most powerful figures in Washington. The *Washington Post* is the capital's most influential newspaper, and it vies with the *New York Times* as the world's most influential newspaper. These are the papers read by all segments of the nation's elite; and both papers feed stories to the television networks and wire services.

"Mrs. Graham inherited her position from her father and husband, but since 1963, when she became president of the *Washington Post* Company, she has demonstrated her own capacity to manage great institutional power. She is the daughter of a wealthy New York banker, Eugene Meyer. Like many elites, her education was in the fashionable private preparatory schools; she also attended Vassar College and the University of Chicago. In 1933 her father bought the *Washington Post* for less than one million dollars. Katherine Meyer worked summers on her father's paper, and then took a job as a reporter with the *San Francisco News*. After one year as a reporter, she joined the editorial staff of the *Washington Post*. 'Father was very strong. There was a great deal of emphasis on not behaving rich and a lot of emphasis on having to do something. It never occurred to me that I didn't have to work.' (Current Biography, 1971, p. 170.)

"In 1940, she married Philip L. Graham, a Harvard Law School graduate with a clerkship under Supreme Court Justice Felix Frankfurter. After service in World War II, Philip Graham was made publisher of the *Washington Post* by his father-in-law. Meyer later sold the paper to the Grahams for one dollar. The Washington Post Company proceeded to purchase other competitive papers in the nation's capital; it also bought *Newsweek* magazine from the Vincent Astor Foundation, as well as some television stations (including Washington's WTOP-TV) and several pulp and paper companies.

"In 1963, Philip Graham committed suicide and Katherine Graham took control of the *Washington Post* - *News Week* enterprises. By the early 1970s the

Washington Post was challenging the *New York Times* as the nation's most powerful newspaper.

"Both the *Washington Post* and the *New York Times* published the *Pentagon Papers*, stolen from the files of the Defense and State Departments by Daniel Ellsberg, and led the fight against the Vietnam War. But it was the *Washington Post* that developed the Watergate story and brought about Richard Nixon's humiliation and resignation.

"Ms. Graham is a director of Bowaters Mersey Paper Company, the John F. Kennedy School of Government of Harvard University, and a member of the Committee for Economic Development. She is a trustee of George Washington University, the American Assembly, the University of Chicago, and St. Alban's School. (Dye, pp. 87-90.)

Part VII - The Origin of the Elite Papers and News Agencies

As noted above, the newspapers and wire services operate under the domination and control of the giant corporations and their directors. The news agencies, which are monopolies, now provide the overwhelming majority of the news for the newspapers, magazines, and radio stations throughout the world.

Jeremy Tunstall pointed out the unique origins of the Anglo-American prestige or elite papers and new agencies:

"There have been two outstandingly influential examples of the prestige newspapers: first *The Times* of London before 1918 and especially from 1830 to 1870, secondly, the *New York Times* since 1918 and especially since 1940. The leading newspapers of most other countries in the world have been closely modelled upon one or both of these *Times* newspapers. In most countries the serious newspapers also rely for much of their world news on the Anglo-American news agencies – Reuters, AP and UPI.

"Prestige newspapers typically have plenty of affluent readers and classified advertising (houses, jobs, servants-and in some countries marriage partners – are acquired through the prestige paper). The paper covers finance, the arts and politics. It becomes a political force, through its new coverage and its close contacts with senior politicians. The prestige paper aims to be also a diplomatic force. For a substantial staff of its own foreign correspondents is an expensive enterprise, which a newspaper cannot justify in revenue terms. The foreign correspondents typically return home to take charge also of the domestic side of the prestige newspaper, so that it acquires a cosmopolitan, sometimes even an alien, reputation – which encourages some politicians to make accusations of lack of patriotism.

"*The Times* was a diplomatic force throughout the mid-nineteenth century world, and as the legal restrictions were lifted in Europe many newspapers were modelled on it; the same was true of Latin America and the British Empire. Fewer of the newspapers were able, however, to employ their own sizeable staffs of foreign correspondents – they bought their foreign news cheaply from news agencies.

"In more recent years many prestige newspapers have bought a news service direct from the *New York Times*. A similar service is also provided by pooling the news services of the *Washington Post* and the *Los Angeles Times*. These latter two have since 1950 followed the *New York Times*: each has strengthened its grip on a major American urban market, has achieved some semi-monopoly security, and has moved away from a conservative past to the more liberal and internationalist stance typical of the prestige paper. In addition to the huge resources of these wealthy papers, each news service draws on other major American, and predictably British, newspaper resources. Both news services are used especially by medium-sized newspapers within the United States; in the rest of the world they are used mainly by serious papers for their feature and column coverage of the United States and for their staff foreign correspondents.

Leading International News Agencies

"The three leading international news agencies are Associated Press and United Press International (both American) and the British Reuters. There is little doubt that 'the major part of the international news flow is carried by the four Western agencies'. (The fourth major western agency is Agence France-Presse.) Even those two dozen or so newspapers and other news organizations in the non-communist world which have substantial numbers of foreign correspondents still use the international news agencies for their basic world coverage. All of the thousands of other newspapers and radio/television stations (outside the communist countries) have little choice but to rely directly or via a national agency on the international agencies as their main source of world news.

Reuters

"The British agency, *Reuters*, for half a century after 1870 played the leading part in a *world* news cartel. The European news agencies in 1870 divided the world into exclusive news territories. Reuters obtained the lion's share: Britain, Holland and their combined dependencies in the world – that is, much of Asia and Africa. Havas, the French agency, was given France, Italy, Spain, Portugal and the Levant. Reuters and Havas agreed to operate jointly in the Ottoman Empire, the Balkans, Egypt and Belgium, while the German agency merely got Germany, Scandinavia and Russia. Since 1866 (when the first Atlantic cable was successfully laid), Reuters and Havas exchanged news with the Associated Press, the leading American agency. United States news thus reached the world mainly via Reuters.

In 1876 Reuters agreed to Havas having Latin America – while Reuters got Australia, China, Japan and the entire Far East, except Indo-China.

"From 1870 to 1914 Reuters, based in London at the hub of the world cable system, dominated – with some French assistance – the world flow of news. Reuters specialized in financial and political news. Havas and Reuters both supplied financial news to businessmen before they began supplying news to newspapers. Both the British and French agencies operated in the world from an imperial base.

The Dominance of Reuters in World News

"The dominance of Reuters in world news was resented by Associated Press, which itself was a rather different kind of news agency. Whereas Havas and Reuters originated as privately owned commercial companies, the Associated Press had always been co-operatively owned by 'member' newspapers; whereas the European agencies concentrated on financial, diplomatic, and national political news, the American agency supplied news across the broad range now required by US newspapers – including sport, women's features, human interest, crime and regional American news. Whereas Havas was closely tied to the French government and Reuters was loosely tied to the British Empire, the US agencies proclaimed (even if they could not entirely demonstrate) their total independence of government. Above all Associated Press was, in 1900, still entirely a *domestic* US agency – built on the immensely secure 'membership' base of 725 of the largest daily newspapers in the US. (By 1962 AP claimed 8,000 clients, 4,109 of them in the USA. Since so many of the world's newspapers and radio/television stations are now within chains and networks, the definition of 'client' has become vague and such statistics increasingly meaningless. According to Michael Singletary (1975), 1,171 US daily newspapers took the AP service and 799 took UPI in 1973.)

"After the 1914-18 war the American agencies began to compete with, and slowly to overhaul the European agencies on the world scene. The American agencies accused Reuters and Havas of being monopoly government agencies. The 1939-45 war and its aftermath established the dominance of the Anglo-American agencies. Since 1945 the French agency (reborn as Agence France-Presse) has been clearly in fourth place.

"The American agency style also became predominant over the old British and French emphasis on diplomatic and commercial news. Reuters in the mid-1970s was successfully clinging to its tradition of financial news- and drawing at least half its revenue from non-media clients such as banks. But the American agencies have diversified into other kinds of media news – and AP and UPI draw some 80 percent of their income from US domestic press, radio and TV. The world-wide operation of the American agencies is heavily geared to supplying news to

domestic US media; the American agencies have a strong American flavour compared with the less strong British flavour in the Reuters service.

"In most of the world, notions of what a prestige newspaper should be, and how a national news agency should operate, are strongly influenced by the news which so many of them acquire from the Anglo-American prestige papers (through syndication) and from the Anglo-American news agencies. But the United States prestige papers and news agencies reflect the special circumstances of the American media.

U.S. Newspapers

"The great United States prestige newspapers are semi-monopolies – dominating advertising (especially classified and retail) in a great urban market, such as New York, Washington or Los Angeles. In each of these cities the previously intense competition is now radically reduced. Their finances relatively assured through semi-monopoly, these great newspapers focus on maximizing their revenue in the local news, advertising and feature sections; but in the more prominent sections of the paper the concern is primarily with prestige. Prestige takes the form of objective 'neutral' news, political analysis and maintaining the paper's own formidable staff of national and international correspondents.

Power and Prestige

"Power is another name for this prestige – the goal is to be an independent force in local, national and international politics. The more prestigious and independent, the more powerful; the more powerful, the more independent and prestigious. No President or Governor can easily inflict upon them more than minor wounds. They are unlikely to be outflanked - their power being such that they can buy into or otherwise defend themselves against new or rival media. (All three of these newspapers (*NYT*, *WP* and *LAT*) own newsprint mills and are diversified into other media interests – mainly television, radio, magazines and books. In all three cases, however, the newspapers remain the lynch-pins of their respective groups and none of them are overshadowed by non-media business interests.) These great American semi-monopoly papers have become bastions of, and independent baronies within the American political system. They are the prime exhibit – indeed the militant carriers – of a great and potent tradition, the free and independent press. In foreign eyes – in the eyes of journalists around the world, and of some politicians too – these great newspapers embody American democracy more even than does Congress, more than the Presidency, more certainly than the Supreme Court. They exercise a great fascination, and lead to many attempts at imitation. Yet the prestige papers of most other lands cannot be another *New York Times*. They lack its dominance in an immensely affluent if troubled urban area, where its main competition is provided by suburban dailies.

"The United States prestige newspapers' local semi-monopolies reflect a wider pattern – most American daily newspapers are complete local monopolies. There are some 1,700 daily newspapers in the USA – few of which are seriously threatened by competition. The *national* vacuum is primarily filled by the two dominant American news agencies, Associated Press and United Press International. Here there is genuine competition between two powerful forces – somewhat similar to the competition between the three broadcast networks. But this AP and UPI duopoly is itself built upon the local monopoly of nearly all of their newspaper clients.

"The American pattern of local media leads to a *national* pattern of a few strong organizations which are geared to supplying far-flung local outlets – and then go on to do the same thing in the world. As with the electronic media, these exporters, while selling their own media output, also tend to influence and define news values, styles and formats around the world... (Jeremy Tunstall, *The Media are American-Anglo-American Media in the World*, London: Constable and Company, Ltd., 1977, pp. 28-32.)

Part VIII - The Large Newspaper Chains

The large newspaper chains and the news agencies effectively control and censor daily the news for the tens of millions of people. In the United States there are now 1,764 daily newspapers. There are 167 newspaper chains. Of the 1,764 dailies, 1,264 belong to a chain. Through the process of merger and acquisitions, fifty to sixty dailies are being taken over by the large chains each year. In 1970, ownership of the large groups were as follows:

Name of Group	No. of Dailies*	Week-Day Circulation
1. Thomson Newspapers (including Thomson-Bush-Moore)	43	840,497
2. Gannett Newspapers <i>with</i>	37	1,665,335
_____ <i>Federated Publications</i>	44	1,950,347
3. Scripps League Newspapers	31	303,832
4. Donrey Media	25	291,899
5. Newhouse Newspapers	22	3,098,775
6. Freedom Newspapers	22	495,128
7. Warrell Newspapers	21**	221,569

8.	Scripps-Howard Newspapers	17	2,321,028
9.	Ridder Publications	16	1,175,810
10.	Lee Newspapers	15	427,196
11.	Harte-Hanks Newspapers	15	449,707
12.	Stauffer Publications	15	236,970
13.	Copley Newspapers	14	692,968
14.	Dow Jones (including Ottaway Newspapers)	13	1,465,630
15.	Knight Newspapers	11	2,199,995
16.	Speidel Newspapers Inc.	11	284,530
17.	James M. Cox Newspapers	10	1,018,530
18.	Ingersoll Newspapers	10	311,800
19.	Palmer Newspapers	10	81,855

*Based upon figures in 1971 Editor & Publishers Year Book. Number of dailies in each group updated to July 1, 1971; circulations as reported for September 30, 1970. **Five papers owned jointly with Walls Investment Company.

(Raymond B. Nixon, "Half of Nation's Dailies Now in Group Ownership." *Editor & Publisher*, July 17, 1971, p. 32.)

In 1980 the Hearst Corporation owned ten daily newspapers, twenty magazines, such as *Harpers Bazaar*, *Good Housekeeping* and *Cosmopolitan*, two book companies, and two broadcast stations. The Gannett Company owned eighty daily newspapers, seven television stations, twelve radio stations, nineteen weekly newspapers, and the Louis Harris Pollster organization. Knight-Ridder owned thirty-two daily newspapers. The Newhouse chain owned twenty-nine daily newspapers and five magazines – *Vogue*, *Mademoiselle*, *House and Gardens*, *Glamour* and *Brides*. The Tribune Company owned nine daily newspapers. Scripps-Howard owned seventeen daily newspapers. United Press International owned *World Almanac*. The Dow Jones & Company owned *The Wall Street Journal*. Times Mirror owned the *Los Angeles Times*. The Washington Post Company owned the *Washington Post* and *Newsweek*. The New York Times Company owned ten daily newspapers including the *New York Times* and five weeklies. Panox owned six daily newspapers and forty weeklies.

The Gannett Company

The Gannett Company, the largest media conglomerate in the United States, is purchasing newspapers at a rate of ten or more each year.

The trend is obvious. In a few years all the daily and weekly newspapers will be in a few hands. Control over information, news, ideas, etc., will be concentrated in the hands of the elite media chiefs who operate under the direction of the giant corporations. Only certain news will be allowed to flow to the people. Editors will be carefully selected who espouse the secular and international worldviews.

Newspapers in Canada and the U.S.

There are 140 newspapers in Canada and the United States which influence the people of these nations. They include: ALABAMA – Birmingham News; ALASKA – Anchorage Daily Times; ARKANSAS – Arkansas Democrat; Arkansas Gazette; ARIZONA – Arizona Republic; CALIFORNIA – Los Angeles Herald-Examiner; Los Angeles Times; Sacramento Bee; San Diego Union; San Francisco Sun-Reporter, San Francisco Chronicle; San Jose Mercury/News; COLORADO – Denver Post; Rocky Mountain News; CONNECTICUT – Hanford Courant; DELAWARE – Wilmington Morning News/Evening-Journal; DISTRICT OF COLUMBIA – Washington Star; Washington Post; FLORIDA – Miami Herald; Orlando Sentinel Star; St. Petersburg Times; GEORGIA – Atlanta Constitution; HAWAII – Honolulu Advertiser; Honolulu Star Bulletin; IDAHO – Idaho Statesman; ILLINOIS – Chicago Defender; Chicago Daily News; Chicago Tribune; Rockford Morning Star-Register Republic; INDIANA – Gary Post-Tribune; Indianapolis News/Star; IOWA – Des Moines Tribune/Register; KANSAS – Emporia Gazette; Topeka Daily Capital; Wichita Eagle/Beacon; KENTUCKY – Louisville Courier-Journal/Times; LOUISIANA – New Orleans States-Item/Time-Picayune; MAINE – Portland Evening Express/Press Herald; Portland Sunday Telegram; MARYLAND – Baltimore Afro-America; Baltimore News American; Baltimore Sun; MASSACHUSETTS – Boston Globe; Boston Herald American, Christian Science Monitor; Fall River Herald News; New Bedford Standard Times; Springfield Republican/Morning Union; Worcester Evening Gazette/Telegram; MICHIGAN – Ann Arbor News; Detroit Free Press; Detroit News; Saginaw News; MINNESOTA – Minneapolis Tribune; MISSISSIPPI – Biloxi Daily Herald; MISSOURI – St. Louis Review; St. Louis Post Dispatch; St. Louis Globe Democrat; Kansas City Star/Times; MONTANA – Billings Gazette; NEBRASKA – Lincoln Star/Journal; NEVADA – Nevada State-Journal; Reno Evening Gazette; NEW JERSEY – Newark Star Ledger; NEW MEXICO – Albuquerque Journal; NEW YORK – Albany Knickerbocker News; Amsterdam News; Buffalo Evening News; New York Daily News; Newsday; New York Post; Rochester Democrat/Chronicle; Syracuse Herald-Journal; Wall Street Journal; NORTH CAROLINA – Charlotte Observer; Winston Salem Journal; NORTH DAKOTA – Bismarck Tribune; OHIO – Akron Beacon-Journal;

Cincinnati Enquirer; Cincinnati Post; Cleveland Plain Dealer; Columbus Dispatch; Dayton Daily News; Toledo Blade; OKLAHOMA – Daily Oklahoman; Oklahoma City Times; Tulsa Daily World; OREGON – Oregon Journal; Oregonian; PENNSYLVANIA – Philadelphia Evening Bulletin; Philadelphia Inquirer; Pittsburgh Post-Gazette; Pittsburgh Press; RHODE ISLAND – Providence Journal; SOUTH CAROLINA – Charleston News/Courier; Columbia State; SOUTH DAKOTA – Sioux Falls Argus-Leader; Rapid City Journal; TENNESSEE – Louisville Courier-Journal/Times; Chattanooga Times; Memphis Commercial Appeal; Nashville Tennessean; TEXAS – Dallas Morning News; Dallas Times-Herald; Fort Worth Star-Telegram; Houston Chronicle; Houston Post; UTAH – Deseret News; Salt Lake Tribune; VERMONT – Burlington Free Press; VIRGINIA – Norfolk Virginian-Pilot; Richmond News-Leader; Roanoke Time/Times Dispatch; WASHINGTON – Seattle Times; WEST VIRGINIA – Charleston Gazette; WISCONSIN – Milwaukee Journal; Wisconsin State Journal; WYOMING – Casper Star Tribune.

Elite Newspapers in the World

There are almost fifty elite newspapers of the world which shape the views of the people in the world. These include: Nihon Keizai Shimbun (Japan); Wall Street Journal (U.S.); Sole 24 Ore (Italy); Handelsblatt (W. Germany); The Australian Financial Review (Australia); Ceazeta Mercantil (Brazil); Financial Times (England); International Herald Tribune (U.S.); Washington Post (U.S.); ABC (Spain); Afterposten (Norway); Dagens Nyheter (Sweden); Le Figaro (France); The Scotsman (Scotland); La Stampa (Italy); Svenska Dagbladet (Sweden); The Yorkshire Post (England); Borba (Yugoslavia); Ha 'aretz (Israel); Helsingin Sanomat (Finland); Izvestia (U.S.S.R.); Pravda (U.S.S.R.); Die Presse (Austria); The (Baltimore) Sun (U.S.); The Christian Science Monitor (U.S.); St.Louis Post-Dispatch (U.S.); The Globe and Mail (Canada Winnipeg Free Press (Canada); O Estado de S. Paulo (Brazil); The Age (Australia); Al Ahram (Egypt); Die Burger (South Africa); The Hindu (India); Jen-min- Hih-pao (Red China); The Sydney Morning Herald (Australia); The Guardian (England); The Times (England); Berlingske Tidende (Denmark); Le Monde (France); Frankfurter Allgemeine (W. Germany); Die Welt (W. Germany); Neue Zürcher Zeitung (Switzerland); Corriere della Sera (Italy); L'Osservatore Romano (Vatican City); Excelsior (Mexico); La Presna (Argentina); Los Angeles Times (U.S.); The New York Times (U.S.); Asahi Shimbun (Japan).

Part IX - The Press Empires of the World

In the last several decades there has been a tremendous concentration of power by the owners and operators of the media. They are, in reality, large empires presided over by the elite financial oligarchies in the United States, Europe, Asia, Australia, etc. Very few writers have investigated the power of these groups, however, one such writer is Jean Louis Servan-Schreiber. In 1972, he wrote a book

friendly to the publishing industry entitled, *Le Pouvoir d'Informer*. It was subsequently translated from the French and published by McGraw-Hill in English under the title, *The Power to Inform*. Chapter five of Servan-Schreiber's book is entitled, "The Press Empires." In this essay, Servan-Schreiber outlines the growth and extent of the large publishing empires in the Western world. He wrote:

"It is probably because the word "media" automatically brings to mind the idea of power that one speaks in terms of "publishing empires" as soon as some fortunate entrepreneur has managed to acquire three or four periodicals. Today in the United States, the expression "communications empire" would perhaps be more applicable to a press group that adds a book club and a few radio stations (since there are over 4,000 radio stations in the United States, it is not exceptional for a publisher to acquire one) to its newspaper and magazine interests. But in Europe newspapers and magazines will probably remain the central, if not the exclusive, concern of such empires, since radio and television stations are, for the most part, state monopolies or are – as in the case of the two private French radio stations, Europe No. 1 and Radio-Luxembourg – subject to heavy governmental control. Even in the United States, a company may, by law, own only a specifically limited number of local radio and television stations. Therefore, press lords infatuated with high sales and strong growth continue to devote themselves to the printed press, whose creation, purchase, and sale remains more or less free in all industrial democracies.

"There are no precise criteria by which a publishing company is automatically considered to have reached the status of empire. The number of publications owned does not in itself have any bearing. Take the case of the Compagnie Francaise d'Editions, which controls nearly thirty specialized French magazines (which together do not reach even half the sales of *Le Monde* and which pull in an even lower percentage of its profits). Only its smallest competitors would go so far as to refer to it as the 'Ollive Empire' – to give it the name of its owner. Nor is it simply a question of commanding both a large number of publications and high sales figures. The group created in Paris by the Italian mini-tycoon Cino del Duca, for example, is made up of a number of periodicals, several among them with circulations of over a million. Yet *The Wonders of Knitting*, *Tarzan*, and *Intimate* separately or together, do not have sufficient influence on public opinion to make the organization worthy of the crown of empire. In order to become a member of the envied club of "publishing empires" a firm must not only be big but influential as well. Only two or three companies in each country fit these somewhat vague criteria. In France, the two major organizations are Hachette, whose manifold enterprises include, among other things, a press empire, and the publishing holdings of Jean Prouvost, whose operations center around *Paris-Match*. The country's other groups rank not as empires but only as principalities. In Germany, the Springer and Gruner Jahr magazine groups are the dominant press enterprises; in England, Thomson and the International Publishing Corporation share top rank, along with Murdoch, an aggressive newcomer on the English publishing scene; in

Italy the Mondadori group is the largest and most influential; in Sweden it is Bonier; in Japan it is the three giant dailies: *Asahi*, *Mainichi*, and *Yomiuri*; and in the United States a dozen magazine groups and daily newspaper chains predominate. Most of these enterprises are among the 100 largest corporations of each country, even though they are almost exclusively based upon an ordinary product which lacks technological interest and is particularly perishable: printed paper.

"Among the publishing empires or the groups which aspire to join their ranks, there are wide variations in character, depending upon the personality of the man who created them. For, more so than in any other industry, it is almost always an individual who is the founding spirit of a publishing business. And, more often than not, it is a man who started with practically no money at all; the majority of these fabulous corporations were begun with ridiculously small outlays of capital. No need for machines or funds to create newspapers or magazines – equal doses of talent, courage, and foolhardiness will suffice.

Forming a Publishing Empire

"Essentially there are three ways to form a publishing empire. In ascending order of difficulty and rarity, they are: acquisition, imitation, and creation. The most frequent method, because it calls upon the talents of businessmen, which are found in greater abundance than the rarer talents of journalists, is acquisition. A businessman may buy journals that others have created. For this, two types of talent are required: financial ability (i.e., the 'know-how' to negotiate a good price and to raise the necessary funds) and administrative ability (to assure the greatest possible return on the stocks that one has purchased).

"Journalistic talent is unnecessary, and even somewhat of a handicap, for if a business genius starts trying to achieve editorial perfection in the publications he controls and needless expenses are incurred and absorbed in editorial perfectionism, he may be passing up other interesting acquisitions. By the same token, success is far more certain if one keeps as far away as possible from a political stance. It is far better if the editorial staff of acquired newspapers can be assured continued editorial control, while someone else gives his undivided attention to the yearly income statements. One of the best contemporary examples of this axiom is Sam Newhouse, who once said, "Anybody who loses money on a daily newspaper has to be crazy." For years now, Newhouse himself has been continuously buying up one daily after another with the aim of reorganizing its management and making it return 20 percent in profits before taxes, which in his eyes seems the one indispensable proof of mental sanity. In his stable, he has some ultraconservative newspapers and others that are boldly liberal, but he has never wasted his time trying to interfere with their political stands. Continuing on his money-making way, he also absorbed the Conde Nast group. (*Vogue*, *House and Garden*) but has never become involved in his operations as to personally choose

his magazines' fashion photographs (an activity to which, on the other hand, the owner of the weekly magazine yours *de France*, French billionaire aeronautical engineer Marcel Dassault, happily devotes weekends spent on his property at Villennes).

Roy Thomson

"The world's most attractive acquisition-empire is without doubt the one put together by Roy Thomson, a Canadian who, in 1946, five years after his arrival in Great Britain, became Lord Thomson of Fleet. Born in Toronto in 1894, he began working when he was fourteen, but it was not until the age of thirty-seven, after several bankruptcies, that he opened a small local radio station in Canada – a move that was designed to help increase sales of sets for his radio business. In this roundabout way, he discovered that the news industry could be highly lucrative. Driven by a love for money, Thomson devoted himself from that point on to buying newspapers and radio and television stations. His approach was simple and direct.

A Worldwide Publishing Empire

"Everytime he met the head of a media operation, he bluntly asked, "Would you like to sell?" He even approached the head of the Soviet newspaper *Pravda* this way, who was somewhat baffled and slightly irritated by the proposition. A remarkable financial wizard, he acquired his empire with money borrowed from banks and he was forever enlarging his geographical base. Jumping from Canada to Scotland in 1952, then to London and the United States in 1959, ultimately extending his operations throughout the British Commonwealth. Today his fortune is estimated at some \$300 million and is comprised of thirty-nine newspapers in Canada, twenty-four in the United States, fifty-three in Great Britain (including the *London Times*, a newspaper that is as deeply in the red as it is prestigious), twenty-four publications in South Africa, and a few in Rhodesia, Malawi, Liberia, Australia, and New Zealand. To this incomparable group of daily newspapers must be added nearly twenty radio and television stations (in practically every country of the Commonwealth); thirteen publishing houses, twenty or so printing shops, and several travel agencies, not to mention a slew of specialized magazines. He wanted to prove that a barber's son could become a multimillionaire (and a lord) in London. He achieved his goals. Not only does he never get involved in the contents of his publications (which is why few doubted his word when, on purchasing *The Times*, he guaranteed the independence of that venerable institution), but he has never even visited a great number of them. He is an insatiable and good-natured collector of businesses who just happened to specialize in publishing.

Imitation of Leading Newspapers and Magazines

"The formulas for successful newspaper and magazine publishing are not limitless. Because most daily newspapers are quite similar as far as content and services are concerned, for variety one must turn to magazines. But even here, while on the surface there seems to be great variety, only a limited number of formulas have met with equal success in all free, developed nations. Large-format, weekly general picture magazines such as *Life* and *Paris-Match* have been imitated just about everywhere, as have news weeklies (such as *Time* and *L'Express*), women's magazines, and business publications. When an innovation succeeds in one part of the world (most of the time such ventures get their start in the United States), whoever is first to import it into his own country has an excellent chance of turning it into a success and making a profit. This is neither easy nor automatic, for it takes more than mere determination to be an imitator. Thus, forty years after the birth of *Time*, France still has no news magazine. A team financed by Edmond de Rothschild (and simultaneously by Thyssen in Germany) brought out in 1961 *Continent*, a magazine that used *Time's* formula and that was published simultaneously in French and German. In spite of its financial resources, it did not last five months and never surpassed the 40,000-copy mark. Somewhat hastily it was decided that the formula was not "adapted to the French market." This is probably what prompted Pierre Lazareff, dean of Paris journalism, to predict that *L'Express* "would fall flat on its face" when, a year after the failure of *Continent*, the former political weekly published as a newspaper in tabloid-format was turned into a weekly newsmagazine. *L'Express*, from the point of view of sales and revenues, was an instant success. *Continent's* short life span, in spite of the good idea and the huge sums of money that were behind it, was due to its weak editorial content and, above all, the total lack of effort to promote and market the new product.

Rules of Imitation

"A good imitation, therefore, must follow a number of simple rules. First of all, anyone seeking to try his hand at it must know his market well, must be a true journalist in contrast to the "collector" so that he can adapt an imported idea to local temperament, and, finally, he must have the qualities of an entrepreneur, for there is always a financial risk. One way to establish a publishing empire, then, would be to apply systematically the simple principle: "If it works somewhere else, why not here?" For example, over a span of twenty-five years, Giorgio Mondadori created Italy's largest press empire by successively introducing Italian equivalents of *Life* (*Epoca*), *Elle* (*Grazia*), *Time* (*Panorama*), *Historia* (*Storia Illustrata*), *Eltern* (*Duct*) and, *L'Expansion* (*Espansione*). Mondadori, who developed the press end of this printing and publishing empire, new how to select the foreign ideas that best suited the Italian market at different times. The champion of quality journalistic imitation is unquestionably Jean Prouvost, a French industrialist who was attracted to journalism early and for half a century used his indefatigable

energy (which he retained even after turning eighty-five) to unite his family textile fortune with his love for paper. Like Roy Thomson, Jean Prouvost did not arrive on the publishing scene until mid-life. In 1924 at the age of forty, he purchased a small daily, *Paris-Midi*, and used it to learn the newspaper trade. Five years later, he bought *Paris-Soir*, whose circulation was under 70,000 and, inspired by the methods of the mass-circulation British press, brought sales up to 2 million copies (a figure that has never been reached by any other French daily since) within ten years. Impressed by the success of *Life*, at the end of the 1930s he introduced *Match*, a photo-magazine which had reached a circulation figure of 1.8 million on the eve of the Second World War. The war was to bring Prouvost's empire back to zero. Having briefly served as a minister under Petain, after the war he was obliged to lay low and keep out of public life for a time. In 1949, at the age of sixty-four – almost mandatory retirement age for many chairmen of the board – he started again from scratch with a new weekly picture magazine, now called *Paris-Match*. Five years later, in 1954, he launched *Marie-Claire*, a monthly women's magazine (comparable to *McCall's* and *Ladies' Home Journal*), and then in 1960 he brought out the French equivalent of *TV Guide*, *Tele 7 Jours*, which was to become (as is generally true of television weeklies worldwide) the largest circulation magazine in France. Always the successful imitator, often loosely adapting the ideas of others, he also introduced *LaMaison de Marie-Claire* (a mixture of Germany's *Schoner Wohnen* and America's *Better Homes and Gardens*) and *Les Parents* and *Ambre* (the latter two modeled after two German publications, *Eltern* and *Jasmin*). True, he bought *Le Figaro*, a prestigious Paris daily, and breathed new life into Radio-Luxembourg, but his talents as a journalist entrepreneur had, after the war, been dedicated to magazines. Of course, thanks to the family textile business, Jean Prouvost never lacked for money, but others as wealthy as he believed they were capable of buying themselves a place in newspaper and magazine publishing and failed. Even if he does not rank as an innovator, to succeed as an imitator he needed a tremendous amount of creativity.

The Creation of New Publications

"In speaking of the press, perhaps it is a bit unfair to give the greatest credit to originators and innovators. Novelty is not necessarily a proof of creativity. For example, whoever introduces the computer industry's first specialized periodical that follows the format and approach of traditional technology magazines will probably have contributed less to the press than a man such as Rudolf Augstein who, inspired by *Time* magazine, launched *Der Spiegel* in Germany in 1947, incorporating in his imitation all the changes necessary for German readers' tastes. Every now and then somebody hits on a formula that sets a new precedent in publishing. Even if it is only a question of applying for the first time an already established journalistic technique to a totally different type of subject matter, the resulting newspaper or magazine still can be considered a new creation. In France, when Robert Hersant applied the techniques used by general magazines to the automotive press, he created *Auto-Journal*. When Wall Street's Gil Kaplan adapted

the format of the quality monthly to the financial press, he created *Institutional Investor*. It would be useless to try to evaluate whether their contributions to the press demonstrated greater talent than the contributions of Mondadori or Prouvost, but there is no doubt that the former took an additional risk by introducing a combination that had never been tested elsewhere. This is precisely the chance that Jean-Jacques Servan-Schreiber took with the first issue of *L'Express* (in 1953) and Daniel Filipacchi (who is now a partner of Hefner in the U.S. with *Oui*) took with the introduction of *Salut les Copains* (in 1964). However, if creations such as these are to serve as the foundation for a press empire, the founder must have a great deal of luck in addition to a touch of genius. Consider the case of *Playboy*, which was introduced by Hugh Hefner as a competitor to *Esquire* in 1953, after *Esquire* refused to give its then-employee Hefner the raise in salary he had requested. *Playboy's* formula, derived strictly from Hefner's personal ideas and tastes, arrived right at the moment of change in the American male's morality and dreams. In less than twenty years, Hefner not only produced a magazine with a circulation that ranked among the top ten in the world; he had also created one of the most lucrative publishing phenomena (measured by profits as a percentage of sales) as well. But if an award were given for the introduction of the best single idea it would certainly have to go to Lila and Dewitt Wallace who, in 1922, conceived *Reader's Digest* and launched it in a garage with virtually no funds. No other magazine or newspaper in the world sells (and none probably ever will sell) more than 25 million copies of each issue in fifteen languages. No other press empire is founded on a single publication (the organization's numerous other sidelines are not journalistic). The popularity of *Reader's Digest* is such that it bewilders many of the professionals in the trade who are unable to put the publication into any of the usual categories. They find its formula to be intellectually anemic and have trouble understanding the success of a magazine whose content has true mass appeal; with its extremely short articles (three to six digest-size pages each) and simple language, it has managed to put itself within the scope of what today is considered the average television viewer. The Wallaces instinctively created a magazine for people who are not otherwise readers. It was, and remains fifty years later, a true press innovation.

Henry Luce

"While it is relatively rare to find authentic creators of new types of publications in the contemporary press, it is almost unheard of for a single man to conceive, bring into being, and succeed with several such creations. To measure how difficult this is, one need only compare the press with industries in which the invention or creation of a product (be it a transistor or Frosted Flakes) and its manufacture, on the one hand, and its distribution and sales, on the other, are not under the control of different men. Once perfected, an industrial product can be reproduced and distributed without its originator ever having to participate. In newspaper and magazine publishing, however, a new concept or idea may be essential, but the idea can take shape only if its originator is also capable of putting

the publication to press, making each new issue appealing, and constantly perfecting it. The inherent craftsmanship of publishing requires that the same person possess imagination, the ability to get things done, and of course some business acumen.

"The man who totally synthesized these qualities left a greater mark on contemporary publishing than any other man and built the most powerful press empire in the world – Henry Luce, who died in 1967 at the age of sixty-eight. It was he who, with his friend Britten Hadden, came upon with the idea for *Time* and introduced it in 1923, using a journalistic formula that today more than ever fills a basic modern need (to provide readers baffled by the confusing flood of daily news with a weekly round-up of current events). He was also responsible for the creation and introduction of *Fortune* in 1930 (the first in-depth and lavishly illustrated reportage of business news), *Life* in 1936 (the news of the week in picture form), *Sports Illustrated* in 1954 (sports treated as a serious subject worthy of quality reporting), and Time-Life books sold by mail throughout the world. For each of his magazines, Luce perfected original editorial ideas that assured content, writing, and illustration of a quality rarely achieved up to that time in the news field. The exact opposite of a 'collector,' he himself originated and built the immense enterprise that is Time, Inc., today (total revenues of over \$600 million in 1972). Never have so few publications amassed as many readers and made so great a profit. Even *Life's* recent demise must be seen in the perspective of a quarter-century of fantastic success. *Sports Illustrated*, which was in the red for the first twelve years of its existence, is now highly profitable. Luce's journals reflected his conservative politics, which his successors, in tune with a changing society, little by little have erased from the pages of his publications. All in all, Henry Luce probably will go down in publishing history as the most inventive journalist the profession has ever known and as a man who was able to do what most people believed to be impossible: achieve mass circulation without compromising editorial quality.

The Succession Crisis in Publication

"Because, to a greater degree than other businesses, press empires are founded on a single individual's talents as a creator or entrepreneur, they are apt to go through a particularly delicate phase at the time of succession. Depending on the economic structure in different countries, press empires are usually passed on either to the family or, in the absence of a more-or-less competent heir, to the technostructure, i.e., a group of managers that appoints itself a monarch. The family produces both the best and the worst at the same time. The worst occurs when laws of capital and blood put power in the hands of either a widow (as in the case of a number of regional French newspapers) whose only knowledge of the business at the time of her takeover is what she has picked up during dinner parties, or an incompetent son who spends his life trying to equal the image his staff had of his father. All too often, the father has seen to it that whatever capacity

for initiative his son may have had is exhausted by holding an iron grip on the empire until the age of seventy-five or eighty and keeping his heir in apprenticeship until he is in his fifties.

Maintaining Family Businesses

"Keeping the business under family leadership is a good solution when the heirs have divergent but complementary talents which they can exercise freely while continuing to inspire mutual confidence through close family ties. This was true of the Bonnier family of Sweden, which has been able for almost a century to fulfill the duties of managing the family business and whose many activities include control of half the country's press. While his father Arnaldo was still alive, Giorgio Mondadori carved for himself a made-to-order niche by developing the group's press operations in Milan. As a result, when in 1969 a dispute erupted between Giorgio and his brother Alberto, Mondadori's operations as a whole were not deeply affected by it. Otis Chandler, heir to a line of *Los Angeles Times* publishers and directors, developed a passion for newspapers at the age of thirty and turned the publication into one of the highest quality and largest-circulation papers in the United States while his father was pushing for the enterprise's diversification into other activities. On the death of her husband, Philip, Katharine Graham took over the *Washington Post Newsweek* group; hired competent, responsible people for key jobs; and closely followed the course of its growth. Handing down power in the press by inheritance poses few problems in the United States, but the practice is today often contested in Europe where journalists insist upon being directed by true professionals.

Succession to Power

"The problems involved in succession to power are most evident when there is no heir and it falls to top management and the board of directors to designate a successor. As a rule, no single person in the company embodies all of the founder's qualities as a press entrepreneur – that is, an individual with both editorial and business talents. This is perhaps understandable, since men of this sort are rarely willing to work for others. In addition, by the mere fact of a press empire's having become a huge, complicated operation, the generally prevailing sentiment is that the management of the firm should be entrusted to a competent businessman who, by the very nature of his talents, is not in a position to judge, much less to direct, editorial operations. Consequently, succession for the most part leads to a lack of editorial dynamism and even a lowering of quality. Looking again at Henry Luce, one finds that he was well aware of the problem and, in a rare move among big bosses, wanted to organize and help put his successors into the saddle while he was still alive. Unable to find one man to fill all of his own roles, he developed a corporate structure that placed Jim Linen, president of the company, in charge of money-making and made Hedley Donovan the overall editor-in-chief of the magazines to whom the editor-in-chief of each separate publication was

responsible. In 1960 Luce himself had abandoned his financial duties as president of the company and remained only as editor-in-chief. In 1964, at only sixty-six, he retired completely and Hedley Donovan took over the top editorial spot. Luce died two years later of a heart attack. Few transitions have ever been so conscientiously organized. Yet, despite the precautions he had taken, it was not long before problems began to surface. In 1969, less than two years after Luce's 'death, Time, Inc., was in difficult straits. *Life's* ever-increasing losses, several investments which had cost the company \$15 million, coupled with several years of poor advertising revenues for the American press as a whole, suddenly made it necessary to reduce expenses drastically. Jim Linen was replaced by Jim Shepley and authority for the entire company was put into the hands of one man, Chairman of the Board Andrew Heiskell, who had the advantage of having been a journalist early in his career. Dual hierarchies tend to show their weaknesses when hard times hit. In contrast to Luce's badly-rewarded foresight is the "*apres-moi-le-deluge*" philosophy of Jean Prouvost who, at the ripe old age of eighty-five, still had not found nor truly sought a suitable successor. Paris high society is already anticipating the vigorous competition for the role of successor that is certain to follow when Prouvost leaves the scene – which is unlikely to benefit Prouvost's empire.

The Diversification Crisis

"The principles of modern management demand that one avoid putting all one's eggs in the same basket, especially – according to the persistent warnings of financial analysts – in publishing. For the past twenty years, there have been dire predictions, repeated over and over again, that printed media will be totally displaced by the audio-visual industry. Even if such an event does not seem to be imminent, constant repetition of this absurdity has given rise to the belief that the press is on its last legs. Nevertheless, the prosperous press empires have shown themselves to be excellent money making machines; Yet as soon as bank accounts start to fatten, management oracles rise again. "Contrary to what your immigrant ancestors believed," they explain, "having money in the bank is not a proof of good management." They claim that one should invest one's money and even go into debt in order to diversify and acquire companies which will produce independent profits. Such talk may strike a responsive chord among some heirs or successors of an empire who seek to distinguish themselves from the company's illustrious and intimidating founder.

"For one reason or another, the crucial moment may come when a press empire feels that it is ripe for diversification – that is, ready to introduce or buy nonjournalistic enterprises. Those who seem most convinced of the necessity for diversification are the ones whose empires consist principally of a single large, powerful, and very profitable publication. They insist that the magazine's or newspaper's share of the company's sales and profits dwindle from the 90 percent it once represented to less than 50 percent. In any case, this is the goal young

directors like Otis Chandler and Arthur Ochs Sulzberger, respectively head of *The Los Angeles Times* and *The New York Times*, have set for themselves. In keeping with this line of reasoning, Chandler purchased an important daily in the Long Island area, *Newsday* (which also gives him a chance to do some hunting on rival Sulzberger's stalking grounds), publishing houses, and even an aviation map company. As for Sulzberger, he acquired *Family Circle* (a very prosperous, practical women's magazine), Arno Press and Quadrangle (book publishers), and even some magazines for dentists and golfers.

"The major difficulty, generally, is in the realm of profits. For, while it is easy to increase an empire's sales by adding the sales of the purchased enterprises to those of the principal publication, it is not rare to see a percentage drop in the earnings of the new group. This occurs because few businesses reach a profitability level as high as that of a daily newspaper or a magazine that is doing well. If the latter shows 18 percent in profits before taxes and the newly acquired operation only reaches 13 percent (which is not bad at all), the total yield will be lower and the apostle of the diversification will find that his reputation as an administrator has become a bit tarnished. But since the major reason for diversification is not, contrary to what most annual reports boast, to optimize profits but to enlarge the empire's holdings, the profit picture alone does not usually keep management from diversifying. In the case of Playboy Industries, *Playboy Magazine*, a superb money-maker, earns 21 percent in profits before taxes. Somewhat bored in his Chicago "electronic" mansion, Hugh Hefner decided to diversify his activities by introducing the Playboy clubs. Twelve years later there were seventeen of them, but their earnings do not exceed 10 percent. As for Hefner's more recent venture, that of the Playboy Hotels, they are still in deficit, and the construction of the one in Great Gorge, New York, has swallowed over \$30 million in investments. When one thinks of the numerous magazines which *Playboy's* excellent press team could have bought or launched with such a sum, one can only wonder if the best thing to do with a press empire's cash flow isn't to use it for what its directors really know how to do best: the publishing of magazines and newspapers.

The Bureaucratic Empire

"Once the crisis of succession has passed and diversification has been initiated with whatever degree of success, press empires tend to resemble any other enterprise. After a period of growth made possible by innovation and the tight control of the founder, the publishing firm finds itself in calmer waters, when each person in a responsible position, to avoid rocking the boat, carefully tries to pull his own oar and lets his counterparts in other jobs do the same. The new boss in most cases was chosen by his equals for his ability as a "co-ordinator" – that is, he knows how to preside over a business meeting without getting involved in embarrassing disputes. The watchword is no longer conquest, but endurance. If the stockholders are satisfied – i.e., the stock market price is rising and dividends are growing – they will allow the team in power to raise its salaries, fatten its expense

accounts, and have its own way about who gets promoted to which position. At such times it seems advisable that no business risks or innovations be undertaken. A failure, even one involving a limited investment, would be detrimental to the company's image and injurious to the stability of its stock quotations. However, a refusal to grow at all – for example, failure to launch any new publication – is contrary to the very nature of an empire, which, by definition, involves spreading out. Thus, when creative young executives (and an empire's prestigious image always attracts a few) propose new projects, they are encouraged and their suggestion is presented for serious consideration to the development committee. In the next six months the committee will conduct a market survey, organize a budget for the project and put together a voluminous, usually favorable report (after all, the development committee *is* there to promote expansion) which is then transmitted to the financial committee. This group studies the profitability of the idea, looks over the projected quarterly earnings, anxiously scrutinizes midterm projections, subjects cash-flow estimates to rigorous analysis, and three months later releases its own findings – frequently a few shades less optimistic than the original study. Finally, all of this is brought to the attention of the board of directors, the nervous and flattered young executive making detailed presentations supported by color slides and a three volume report with appendices. The board may declare itself to be in favor of the proposed project, but insists that, because a tremendous effort must still be made to strengthen existing enterprises, it would be preferable to hold off adopting it until a to-be-announced date. The young executive, disappointed but still hopeful, quietly waits and in the meantime continues to contemplate his graphs. Six months later, still with no progress in sight, he borrows money from his uncle, leaves the company and launches the new venture on his own. At any rate, this seems to be the script whereby some magazines have in recent years made new competitors out of young men who found that the big houses had lost their taste for gambling. However, sometimes the board of directors is correct in remaining steadfast. To succeed at launching a new magazine or newspaper, a business must know how to do so with a minimum of cash outlay and a limited number of men who are truly dynamic and willing to cut down on expenses and their own salaries while they wait for the returns to increase. This is the way press empires traditionally got their start, in fact. But today, in a world of wall-to-wall carpeted offices where one cannot possibly work without a secretary, a private telephone line, consultants, and market studies, "overhead" alone threatens to smother any newborn publication.

"Yet from time to time the unexpected happens. Some particularly convincing and obstinate individuals have managed to obtain authorization for their schemes. There is no guarantee of success, however. The largest press enterprise in France, Hachette, introduced *Cinq Colonnes a la Une*, a weekly television magazine, in 1971 – this, despite the fact that no other country in the world has ever been able to support several magazines of this type and France was a country that already had two, *Tele-Poche* and *Tele 7 Jours*. Also, Hachette itself owned 50 percent of the latter publication. In view of this, the odds of success were so slight they should

have been evident without a market study. Hachette lost \$2 million on the new magazine before it was forced to close it down, which seemed to sustain the company's wisdom in having previously discouraged such initiatives.

The Best Publications

"Not all newspapers and magazines are part of press empires. Many remain independent, created and directed by a loner for whom one crowning achievement is sufficient. Some deliberately refuse to capitalize on their reputations and financial means. For example, *Le Monde* has the strongest image of quality in French publishing and could use it with the assurance that every project introduced under its name would be exceptionally well received by potential readers and advertisers. In addition, *Le Monde* has at its disposal substantial financial resources and a remarkable (but too large) team of journalists. All of the elements needed for diversifying are present except one – the desire to do so.

"The reader who buys a journal at the newsstand generally is not aware of whether or not it is part of a press group. Is the quality of what is read greater or less if the publication is part of an empire? Those who favor independence argue that the only true motivating factor for creating a press empire is increased earnings and therefore it is difficult to see how expansion would lead to higher budgets for any given editorial department. In fact, when economy measures are urgent, the empire's hierarchy calls for a 10 percent cutback in expenses, and it is generally the editorial budget that is the first to be hit. On the other hand, the proponents of large diversified holdings contend that if the same firm has several publications, each can benefit by pooling journalistic and graphic talents, computer resources, and the purchasing of paper, to an extent that no newspaper or magazine on its own can equal. Perhaps for the reader an ideal of quality reading may be found in a young publication that is still in the hands of its creator but has already met with financial success. It is at this time that the innovator has the means for editorial perfection at his disposal and has not yet been convinced by his bankers that his earnings would be put to better use if invested in a printing shop. As is true of all periods of grace, that of a newborn empire does not last long. However, fortunately for the reader, the world of publishing is constantly creating other prodigies. (Jean-Louis Servan-Schreiber, *The Power to Inform: Media – the Information Business*, New York: McGraw-Hill Book Company, 1974, pp. 67-82.)

Part XI - The Liberal Bias of the News

It is obvious that the media is dominated by the global ideologies of secularism, internationalism, socialism, finance capitalism and monopoly capitalism. Professor Thomas A. Dye elaborated on the liberal bias of the news when he noted:

"When TV newscasters insist that they are impartial, objective, and unbiased, they may sincerely believe that they are, because in the world in which they live – the New York-Washington world of newsmen, writers, intellectuals, artists – the

established liberal point of view has been so uniformly voiced. TV news executives can be genuinely shocked and affronted when they are charged with slanting the news toward the prevailing established liberal values.

"Network entertainment programming, newscasts, and news specials are designed to communicate established liberal values to the masses. These are the values of the elite, they include a concern for liberal reform, a public-regarding attitude, an interest in problems confronting the poor and blacks, a desire to educate the ignorant and cure the sick, and a willingness to employ governmental power to accomplish these ends.

"Admittedly, there are some restraints on television communication of elite values – the most important of which is the need to capture and retain the attention of the audience. Television must entertain. To capture the attention of jaded audiences, news must be selected which includes emotional rhetoric, shocking incidents, dramatic conflict, overdrawn stereotypes. Race, sex, violence, and corruption in government are favorite topics because of popular interest. More complex problems – inflation, government spending, foreign policy – must be simplified and dramatized or ignored. To dramatize an issue, the newsmakers must find or create a dramatic incident; film it; transport, process, and edit the film; and write a script for the introduction, the 'voice-over,' and the 'recapitulation.' All this means that 'news' must be created well in advance of scheduled broadcasting.

Television Is Advancing Liberal Values

"But television has made some serious tactical mistakes in its (conscious or unconscious) advancement of liberal values. For example, for several years the national networks decided that incidents of violence, disruption, and civil disorder in American cities were to be treated as 'news.' Generally the media chiefs believed that the civil rights movement had to be carried to Northern black ghettos, that urban conditions had to be improved, that ghetto blacks deserved greater public attention to their plight. Televised riots and disorders dramatized black discontent, and 'voice-overs' generally gave legitimacy to such discontent by citing various social evils as causes of the riots – poverty, racism, poor housing, police brutality. The purpose was to pave the way for mass acceptance of liberal public-regarding programs and policies in the nation's cities.

"But the strategy backfired. Whites saw the visual image of black violence, and ignored the social message attached to it by the commentators. Images of black violence remained in their minds, while words of explanation were ignored. White mass hostilities and prejudices were actually *reinforced* by the urban violence shown on the media. The liberal network executives had created exactly what they did *not* want: a strong 'law and order' movement and a surge of support for George C. Wallace as a presidential candidates. (A study of bias during an election was made by journalist Edith Efron, in a book bluntly entitled *The News Twisters*, Los

Angeles: Nash Publishing Co., 1971. Efron carefully counted words spoken for and against the 1968 presidential candidates – Nixon, Humphrey, and Wallace – in the nightly news broadcasts of ABC, CBS, and NBC. She also counted words revealing a friendly or unfriendly disposition of the networks toward particular groups.)

"For a long time there were two basic issues in national politics: foreign policy, a traditional advantage to the Republicans, and economics, a plus for the Democrats. Now there is a third: Law and Order – shorthand for street crime, race, protest tactics, and 'revolution.' It has been forty years since American politics generated an issue so intense that it could change partisan loyalties for vast numbers of citizens. Law and Order may be such an issue. where did it come from?

"We suggest that the essential midwives in the birth of this issue are Msrs. Cronkite, Brinkley, and their brethren – television newsmen who, we hasten to add, are probably as strongly revolted by the appearance of Law and Order as any group in America. (Bryon Shafer and Richard Larson, "Did TV Create the Social Issue?" *Columbia Journalism Review*, September/October 1972, p. 10. Also see Richard Scammon and Ben Wattenberg, *The Real Majority*, New York: Coward, McCann, Georghegen, 1970, p. 162.)

Less Diversity of Views on Television

"There is far *less* diversity of news presented on television than one finds in the press. There are only three national television network corporations. But there are thousands of newspapers and hundreds of magazines throughout the land for Americans to choose from. Newspapers and magazines present a fairly wide spectrum of views because they represent a wider variety of such things as geographical area, communication policies, and above all, more diversified groups deciding their news presentation. Conventionally 'liberal' and 'conservative' news can be found in such publications as *The New York Times* versus *The Chicago Tribune*; *Time Magazine* versus *U.S. News and World Report*; *The Washington Post* versus *The Wall Street Journal*; *The New Republic* versus *The national Review*; *The Village Voice* versus *Barron's Weekly*. But television is so important in mass socialization that diversity of views is avoided, and a single Eastern, liberal 'establishment' interpretation is presented over all three networks....

The Fairness Doctrine

"The federal government has made only a very feeble attempt to insure pluralism in television coverage of public affairs. The Federal Communications Commission has developed a 'Fairness Doctrine' that requires licensed stations that broadcast public affairs messages to provide equal airtime to present 'all sides of controversial issues.' The Fairness Doctrine does not restrict reporting or editorializing on television in any way, but it tries to guarantee access to airings of views not shared by the stations. But the Doctrine has proven impossible to enforce

in newscasts, and no station has ever lost its license for violation of the Fairness Doctrine. Yet it is bitterly opposed by the broadcasting corporations. Their argument is that the First Amendment gives them the right to be biased, just as it protects the right of individuals or newspapers to be biased.... (Dye, pp. 90-93.)

Part XII – The Creation of News by Newsmakers

In a section entitled, "How Newsmakers Create News," Professor Dye points out the fabrications which occur in the media industry.

"In general, newsmakers are more liberal in their views than other segments of the American establishment.... But how are these views expressed on the tube itself? The primary source of bias is in the selection of topics to be presented as 'news.' Topics selected weeks in advance for coverage reflect, or often create, as we have seen, current liberal issues: concern for poor and blacks, women's liberation, opposition to defense spending and the CIA, ecology, migrant farm labor, tax loopholes, Indian rights, and for nearly two years, Watergate. (The 1972 wounded Knee incident was planned in advance by television producers and Indian leaders and then presented on cue as television 'news.' See Terri Schultz, "Bamboozle Me Not at Wounded Knee," *Harper's Magazine*, June, 1973, pp. 46-56.) The Chappaquiddick incident involving Senator Edward M. Kennedy was given one or two weeks coverage, but barely mentioned thereafter, despite a closed judicial inquiry, many available witnesses to the pre-accident party, and an unexplained increase in the wealth of the non-complaining Kopechne family.

Techniques of Creating Bias

"But there are other techniques of creating bias in the news:

"Investing anonymous 'high Washington sources' who express the newscasters' own opinions, or using phrases such as 'observers point out...' and 'experts believe...' to express their opinions.

"Suppressing information that might clash with a liberal, interpretation of the news. Thus Eldridge Cleaver's criminal conviction as a rapist was never mentioned, and he was presented as 'a noted black nationalist.'

"Presenting glamorous, articulate spokesmen for the liberal side of an argument and 'balancing' it with ugly, harsh, offensive spokesmen for the other side.'

"Winding up coverage of a controversy by a 'summary' or 'recapitulation' which directs humor, sarcasm, or satire at the other side.

"Mindreading,' in which newscasters glibly described the motives and aspirations of large numbers of people – students, blacks, suburbanites, or

whatever – and express the causes of society's discontents and other social and political ideologies.

Outright Falsification

"Outright falsification is less frequent, but it does occur. One of the most impressive 'news specials' ever produced by CBS was 'Hunger in America' – a 1968 production presumably designed to increase support for the food stamp program and the fading war on poverty. The film began showing a dying baby, pitifully thin and malformed, and being given resuscitation in a hospital. The narrator, Charles Kuralt, said: 'Hunger is easy to recognize when it looks like this. The baby is dying of starvation. He was an American. Now he is dead.' (Quotation from Epstein, *News from Nowhere*, p. 21.) This image couldn't help having a tremendous impact on the viewer, who naturally assumed the baby died of starvation or malnutrition. But a subsequent congressional investigation disclosed that the dying baby was a three-month premature infant weighing less than three pounds at birth, whose parents were neither poor nor starving. In defending the falsification, CBS President Richard Salant said that he *believed* that babies were dying in America of starvation, and even though CBS could not find any to televise, a starving baby *would* look like the one pictured. (CBS President Richard Salant was also obliged to come to the defense of another 'documentary,' *The Selling of the Pentagon*, in which film was pasted and clipped during the interviews with Pentagon officials to make them *appear* to have made damaging statements. CBS also reported that there were 30,000 officers in the Pentagon, when there were only 5000. Salant justified the exaggeration by saying that 5000 was still too many. For a defense of *The Selling of the Pentagon*, see former CBS president Fred W. Friendly, 'The Unselling of the Selling of the Pentagon,' *Harper's Magazine*, June 1971, pp. 30-37.)

Selective Perception: All in the Family

"But the viewer's psychological mechanism of 'selective perception' defends him against some portion of television bias. Indeed, one of the reasons why political scientists give little attention to the political impact of television newscasting is their belief in theory of selective perception. This is the notion that viewers mentally screen out information, statements, or images with which they disagree, and see only what they want to see on the tube. The proponents of this theory argue that television rarely produces attitudinal or behavioral changes in viewers. (See Herbert Simon and Frederick Stern, "The Effect of Television upon Voting Turnout in Iowa in the 1952 Election," *American Political Science Review*, 49, 1955, 470-77; J. Blumler and T. McQuail, *Television in Politics*, Chicago, University of Chicago Press, 1969; Harold Mendelsohn and Irving Crespi, *Polls, Television and the New Politics*, Scranton, Chandler, 1970. If this theory is true, newsmakers exercise little real power. But many of these studies have directed their inquiries to political *campaigns* and not to *issues* and *politics*. Many have

ignored the *visual* impact of television. Only recently have a small number of political scientists come to grips with the real power of the mass media. Political scientists Gary Wamsley and Richard Pride cite Spiro Agnew's attack on TV – 'No medium has a more powerful influence over public opinion. Nowhere in our system are there fewer checks on vast power.' (Gary L. Wamsley and Richard A. Pride, 'Television Network News: Rethinking the Iceberg Problem,' *Western Political Quarterly*, 25, September, 1972, 434-50.)

Network Executive Blunders

"But there is just enough evidence of selective perception, and enough evidence of network executive blunders, to keep alive the notion that television cannot completely control public opinion. Consider the example of the enormously popular CBS television show *All In The Family*. Producer Norman Lear and the leadership of CBS believed that the crude, bumbling, working-class, conservative, superpatriotic, racist Archie Bunker would be an effective weapon against prejudice. Bigotry would be made to appear ridiculous; Archie would always end up suffering some defeat because of his bigotry; and the masses would be instructed in liberal reformist values. But evidence soon developed that many viewers applauded Archie's bigotry, believing he was 'telling it like it is.' (See Neil Vidmar and Milton Rokeach, "Archie Bunker's Bigotry: A Study in Selective Perception and Exposure," *Journal of Communication*, Winter, 1974, pp. 36-47.) They missed the satire altogether. Sixty percent of the viewers liked or admired the bigoted Archie more than his liberal son-in-law, Mike. Vidmar and Rokeach's study indicated that highly prejudiced people enjoy and watch the show *more* than low-prejudice people; and few people believed that Archie was being 'made fun of.' When these trends in public opinion became apparent, the show was sharply attacked by the *New York Times*. (L. Z. Hobson, "As I Listened to Archie Say 'Hebe,'" *New York Times*, September 12, 1972.) But by that time *All In The Family* had become the number one rated show on television. CBS optimistically predicted that eventually the humor of the program would help break down bigotry. But it seems clear that the network vastly underestimated 'selective perception.' (Dye, pp. 93-96.)

The Media Monopoly

One of the most knowledgeable media experts in the United States is Pulitzer Prize-winning journalist Ben. H. Bagdikian, the former Dean of the Graduate School of Journalism at the University of California, Berkeley, California. In 1983 he published a very revealing book entitled, *The Media Monopoly*. A fourth edition was published in 1992. Concerning the concentration of control over the media throughout the world, Bagdikian stated:

"George Orwell in his novel, *1984*, fictionalized Big Brother, intruder into privacy and the one big owner of all the mass media in his society. Big Brother

used his control of news, information, and popular culture to achieve Big Brother's vision of a conforming society. Most critics understandably thought of Communist societies where, indeed, everyone was surrounded by One Big Owner of the mass media. Many Communist societies have discovered that they are forced to move away from centralized control of information, though the change is slow and tentative. At precisely the same time the developed democracies of the world, including the United States, have begun moving in the opposite direction, toward centralized control of their mass media, this time not by government but by a few private corporations.

Six Large Corporations Will Own the Most Powerful Media Outlets in America

"No single corporation controls all the mass media in the United States. But the daily newspapers, magazines, broadcasting systems, books, motion pictures, and most other mass media are rapidly moving in the direction of tight control by a handful of huge multinational corporations. If mergers, acquisitions, and takeovers continue at the present rate, one massive firm will be in virtual control of all major media by the 1990s. Given the complexities of social and economic trends, it is unlikely to result in one owner. It is, however, quite possible – and corporate leaders predict – that by the 1990s a half-dozen large corporations will own all the most powerful media outlets in the United States. Given the striking similarity in the private political and economic goals of all of the owning corporations, and given the extraordinary combined power of all the forms of modern mass media, it is not particularly comforting that the private control consists of two dozen large conglomerates instead of only one.

"Predictions of massive consolidation are based on extraordinary changes in recent years. At the end of World War II, for example, 80 percent of the daily newspapers in the United States were independently owned, but by 1989 the proportion was reversed, with 80 percent owned by corporate chains. In 1981 twenty corporations controlled most of the business of the country's 11,000 magazines, but only seven years later that number had shrunk to three corporations.

Twenty Three Corporations Dominate the Media

"Today, despite more than 25,000 outlets in the United States, twenty-three corporations control most of the business in daily newspapers, magazines, television, books, and motion pictures.

"The same dominant corporations in these major fields appear in other, often newer, media. It is the open strategy of major media owners to own as many different kinds of media as possible – newspapers, magazines, broadcasting, books, movies, cable, recordings, video cassettes, movie houses, and copyright control of the archival libraries of past work in all these fields. Rupert Murdoch says that is

now his basic worldwide strategy of acquisition and takeovers. Lee Isgur, media analyst for the investment house Paine Webber, has said, 'The good companies must be integrated.' Major owners of cable systems are corporations also dominant in newspapers, magazines, books, and broadcasting. Increasingly they insist on owning part or all of the programs they transmit on their cable channels. After Sony bought CBS Records, it also purchased a company that had exclusive rights to 35,000 songs. Time Warner, the largest media corporation in the world, owns copyright to thousands of other songs, including 'Happy Birthday.'

An Alarming Pattern is Emerging

"An alarming pattern emerges. On one side is information limited by each individual's own experience and effort; on the other, the unseen affairs of the community, the nation, and the world, information needed by the individual to prevent political powerlessness. What connects the two are the mass media, and that system is being reduced to a small number of closed circuits in which the owners of the conduits – newspapers, magazines, broadcast stations, and all the other mass media – prefer to use material they own or that tends to serve their economic purposes. Because they own so many of the different kinds of outlets, they have that golden commodity they speak of with financial joy, a 'guaranteed audience.' But the term 'guaranteed audience' is another way of saying 'captive audience.'"

"Few investors believe that the process of tightening control will stop soon. An investment banker, Christopher Shaw, chairman of Henry Ansbacher, Inc., has negotiated more than 120 media acquisitions. When asked where it will all stop, Shaw likes to quote a client, saying that by the year 2000 all United States media may be in the hands of six conglomerates. Robert Maxwell, a British publisher, said in 1984, 'In ten years' time, there will be only ten global corporations of communications. I...would expect to be one of them.' J. Kendrick Noble, media analyst of Paine Webber, believes that by the end of the century the largest media properties in the country will be owned by a half-dozen huge companies.

Silence Over the Dangers of Concentrated Ownership

"If executives of dominant media corporations are personally silent about dangers of concentrated ownership, it is not surprising: the process benefits them in terms of both money and power. But the media they control also are silent. The silence is not convincing evidence that the media never reflect the corporate and political interests of their owners.

"Today, the chief executive officers of the twenty-three corporations that control most of what Americans read and see can fit into an ordinary living room. Almost without exception they are economic conservatives. They can, if they wish, use control of their newspapers, broadcast stations, magazines, books, and movies to promote their own corporate values to the exclusion of others. When their

corporate interests are at stake – in taxes, regulation, and antitrust action – they use that power, in their selection of news, and in the private lobbying power peculiar to those who control the media image – or non-image – of politicians.

"In a democracy, the answer to government power is accountability, which means giving voters full information and real choices. In the media business it is not different; monopoly and concentrated control diminish real choices....

Concentration of Control in the Television Area

"By the 1960s, television was already concentrated in ownership. The three networks and their wholly owned and affiliated stations continue to have more than two-thirds of the audience. Broadcasters enjoy a 'natural monopoly' in the sense that there is a limited number of frequencies available in each community and the government protects each station's channel from competition.

"Concentrated ownership was in broadcasting's corporate genes. The industry began as a private cartel in 1919 when the Radio Corporation of America (RCA) was formed as an umbrella monopoly under which General Electric, Westinghouse, AT&T, and United Fruit Company agreed to divide the newly emerging radio market among themselves. The National Broadcasting Company was their radio network. CBS did not enter the field until 1927, and not until 1943 did an activist Federal Communications Commission force RCA to divest itself of one of its two radio networks, thus creating ABC.

Television is a Semimonopoly

"Television, in the jargon of Wall Street, is a 'semimonopoly,' not only because of the limited number of owners, but because in most cities the dominant stations have virtually guaranteed high profits; the ratings simply determine which company gets the most.

"Recent events in broadcasting have further concentrated ownership in television. Initially, no company was permitted to own more than seven radio and seven television stations. Under the political drive for deregulation, the FCC in 1984 permitted each company to expand its holdings to twelve AM and twelve FM radio stations and twelve television stations.

Control Over the Nation's Magazines

"Magazine groups became important when mass advertising did. A century ago, when the country's new mass production industries began turning out vast quantities of consumer goods, they needed sales promotion on a national scale. In the era before broadcasting, magazines were the only national advertising medium, since newspapers were strictly local. Magazines became the major carrier of expensive ads, a practice made easier because, unlike newspapers, they could

produce quality color on heavy paper. As the magazines became high profit centers, they attracted larger operators who formed groups.

"Magazines of general interest (*Life, Look, Saturday Evening Post, etc.*) died in the 1960s when the advertising power of color television replaced them, but specialized magazines, including those devoted to women, remain profitable. Like the other media that have become heavily concentrated in ownership, their rates of profit have increased – the result of market domination by a few corporations. In recent years, the dominant groups, notably Time Warner, have so increased their dominance that although there are 11,000 magazines in the country, three corporations have more than half the business.

"Many book companies became properties of outside firms in the 1960s when major electronic and defense industries (IBM, ITT, Litton, RCA, Raytheon, Xerox, General Electric, Westinghouse, and General Telephone and Electronics) entered textbook publishing. At the time, these firms believed that instruction in American classrooms would soon be centered around computers; control of book publishing firms would put them in a position to sell schools and colleges the software for the new hardware, which some of them also sold. Computers have not taken over the classrooms to the extent expected, but the entry of outside corporations into the book world had begun.

Concentrated Ownership of Hollywood Studios

"Hollywood studios, long concentrated in ownership, remain so, and with added complexity. Conglomerates came to appreciate the power to create national styles and celebrities (and extra profits) when combinations of different media reinforced each other in unified promotional campaigns. Today, most of the leading movie studios are also owners in other media, and, thanks to the free-market amnesia about antitrust law, have once again started buying up movie houses to guarantee audiences for their own films and keep out competitors' pictures. In 1948 the United States Supreme Court found ownership of movie theaters by the major movie studios a violation of antitrust law. The U.S. Department of Justice in recent years has ignored that finding and by 1988 a few major studios had bought control of more than a third of all the movie screens in the country....

"In recent years, ever-mounting levels of media conglomeration worldwide have made it more complicated to determine how much absolute equity each large corporation (or its bank and investment house) has in which combination of properties. The large magazine group, Diamandis, until its sale in 1988, was 70 percent owned by Prudential Insurance Company. It was once owned by CBS, which also had other businesses, including defense. Recently, Diamandis, in turn, was sold to the large French publishing firm, Hachette, whose chairman is also chairman of the largest defense contractor in France.

Large Private Firms Gain Control of Media Empires

"Some large firms remain private (Hearst, Newhouse, Reader's Digest Association) without legal need to make public financial filings. For them, market share comes from educated guesses by media specialists on Wall Street and by general knowledge of their audited circulation and advertising pages. Other firms, like Rupert Murdoch's News Corp. Ltd., have complex mixtures of private subsidiaries that operate in a number of different nations. More and more the dominant firms exchange properties to fill out their particular domination patterns or cooperate on mutually beneficial ventures. They have participated in the 1980s phenomenon of the creation of ambiguous forms of debt – junk bonds, preferred stocks treated as bonds, and other new forms of Wall Street paper.

The World of High Finance is Intertwined With Media Ownership

"The highest levels of world finance have become intertwined with the highest levels of mass media ownership, with the result of tighter control over the systems on which most of the public depends for its news and information.

"Narrow control has advanced rapidly. In 1981, forty-six corporations controlled most of the business in daily newspapers, magazines, television, books, and motion pictures. Today, these media generate even larger amounts of money, but the number of giants that get most of the business has shrunk from forty-six to twenty-three.

Twenty-Three Giant Corporations Dominate the Media

"The dominant twenty-three corporations are: 1. Bertelsmann, A.G. (books); 2. Capital Cities/ABC (newspapers, broadcasting); 3. Cox Communications (newspapers); 4. CBS (broadcasting); 5. Buena Vista Films (Disney; motion pictures); 6. Dow Jones (newspapers); 7. Gannett (newspapers); 8. General Electric (television); 9. Paramount Communications (books, motion pictures); 10. Harcourt Brace Jovanovich (books); 11. Hearst (newspapers, magazines); 12. Ingersoll (newspapers); 13. International Thomson (newspapers); 14. Knight Ridder (newspapers); 15. Media News Group (Singleton; newspapers); 16. Newhouse (newspapers, books); 17. News Corporation Ltd. (Murdoch; newspapers, magazines, motion pictures); 18. New York Times (newspapers); 19. Reader's Digest Association (books); 20. Scripps-Howard (newspapers); 21. Time Warner (magazines, books, motion pictures); 22. Times Mirror (newspapers); 23. Tribune Company (magazines).

Newspapers

"Most of the fourteen corporations that dominate the daily newspaper industry have acquired additional daily newspapers (and other media) in the last seven years. The number of daily papers in the country has continued to shrink, from

1,763 in 1960 to 1,643 in 1989, but total national daily circulation has risen slightly from 62 million to 62.9 million and is dominated by a smaller number of firms, from twenty-seven years ago to fourteen today.

"The fourteen, in order of their total daily circulation as of September 30, 1988, were: Gannett Company: *USA Today* and 87 other dailies; Knight-Ridder, Inc.: *Philadelphia Inquirer*, *Miami Herald*, and 27 others; Newhouse Newspapers: *Staten Island Advance*, *Portland Oregonian*, and 24 other papers (Newhouse also owns Conde Nast magazines and Random House book publishing); Tribune Company: *Chicago Tribune*, *New York Daily News*, and 7 others; Times Mirror: *Los Angeles Times* and 7 others; Dow Jones & Co.: *Wall Street Journal* and 22 Ottaway newspapers; International Thomson: 120 dailies and book publishing; New York Times: *New York Times* and 26 others; Scripps-Howard Newspapers: *Denver Rocky Mountain News* and 22 others; Hearst: *San Francisco Examiner* and 13 others; Cox: *Atlanta Journal* and 19 others; News Corp. Ltd. (Murdoch): *Boston Herald* and 2 others; Media News Group (Singleton): *Dallas Times Herald* and 17 others; Ingersoll Newspapers: *New Haven Register* and 36 others.

Magazines

"Tightening concentration was most dramatic in magazines, which from 1981 to 1988 went from twenty dominant corporations to three. The chief cause was the further enlargement of Time, Inc., which in mid-1989 merged with Warner to form Time Warner, the largest media firm in the world. Similarly, Rupert Murdoch's purchase of Walter Annenberg's Triangle Publications made him dominant in yet another field, when combined with his existing magazine holdings. The purchase price of \$3 billion was a reminder of how the media field has become an arena open only to giants. In 1979 when Gannett Company bought Combined Communications Corporation (bill-boards, newspapers, and broadcasting) it was the largest amount of money ever involved in a media acquisition up to that time – \$340 million.

"The three dominant corporations, in order of estimated annual revenues, are: Time Warner: *Time*, *People*, *Sports Illustrated*, *Fortune*, and others; News Corp. Ltd: *TV Guide*, *Seventeen*, *New York*, and others; Hearst: *Good Housekeeping*, *Cosmopolitan*, and others.

Television

"The three television networks – Capital Cities/ABC, CBS, and NBC – despite mergers, attempted takeovers, extreme corporate turbulence, and declining prime-time viewing, still dominate the field. Cable and home ownership of VCRs has grown, but the three networks still have more than two-thirds of the audience. When all radio and television revenues are counted, the three networks still have most of the revenues. ABC is still owned by Capital cities, a rich but undistinguished newspaper chain. CBS, after incurring massive indebtedness in

fighting off hostile takeovers, finished by being controlled by a real estate operator who instituted draconian cost cutting and reduction of its most distinguished activity, news and documentary units. General Electric, the tenth largest United States corporation and a major defense contractor, bought RCA, owner of the National Broadcasting Company, for \$6.3 billion.

Book Publishing

"Book publishing, less driven by the commanding force of mass advertising on which newspapers, magazines, and broadcasting depend, is still highly concentrated. The 2,500 companies that regularly issue one or more books a year are dominated in revenues by six corporations that grossed more than half of book revenues.

"In books, as in other media, there is the growing presence of corporations that dominate in other media. Of the six largest book publishing firms, five are active in other media.

"The six companies are: Paramount Communications (Simon & Schuster, Ginn & Company, and others); Harcourt Brace Jovanovich (Academic Press and others); Time Warner (Little, Brown; Scott, Foresman; and others); Bertelsmann, A.G. (Doubleday, Bantam Books, and others); Reader's Digest Association (Condensed Books and others); Newhouse (Random House and others).

Motion Pictures

"The motion picture industry has always been volatile in its corporate convolutions, but through it all the major studios, in one incarnation or another, have remained dominant.

"In 1988, in terms of share of box office grosses for their films, there were four firms with most of the business: Buena Vista Films (Disney); Paramount Communications (Paramount Pictures); 20th-Century Fox (Murdoch); Time Warner (Warner Brothers).

"Like other large media companies, General Electric brings yet another complication that distinguishes it from small, local companies: it has, through its board of directors, interlocks with still other major industrial and financial sectors of the American economy, in wood products, textiles, automotive supplies, department store chains, and banking.

"Under law, the director of a company is obliged to act in the interests of his or her own company. It has always been an unanswered dilemma when an officer of Corporation A, who also sits as a director on the board of Corporation B, has to choose between acting in the best interests of Corporation A or of Corporation B.

Interlocking Directorships

"Interlocked boards of directors have enormously complicated potential conflicts of interest in the major national and multinational corporations that now control most of the country's media.

"A 1979 study by Peter Dreier and Steven Weinberg found interlocked directorates in major newspaper chains. Gannett shared directors with Merrill Lynch (stockbrokers), Standard Oil of Ohio, 20th-Century Fox, Kerr-McGee (oil, gas, nuclear power, aerospace), McDonnell Douglas Aircraft, McGraw-Hill, Eastern Airlines, Phillips Petroleum, Kellogg Company, and New York Telephone Company.

"The most influential paper in America, the *New York Times*, interlocked with Merck, Morgan Guaranty Trust, Bristol Myers, Charter Oil, Johns Manville, American Express, Bethlehem Steel, IBM, Scott Paper, Sun Oil, and First Boston Corporation.

"Time, Inc. (before it became Time Warner) had so many interlocks it almost represented a Plenary Board of directors of American business and finance, including Mobil Oil, AT&T, American Express, Firestone Tire & Rubber Company, Mellon National Corporation, Atlantic Richfield, Xerox, General Dynamics, and most of the major international banks.

"Louis Brandeis, before joining the Supreme Court, called this linkage 'the endless chain.' He wrote: 'This practice of interlocking directorates is the root of many evils. It offends laws human and divine.... It tends to disloyalty and violation of the fundamental law that no man can serve two masters.... It is undemocratic, for it rejects the platform: "A fair field and no favors."'"

Media Firms are Integrated into Banking and Industrial Firms

"As media conglomerates have become larger, they have been integrated into the higher levels of American banking and industrial life, as subsidiaries and interlocks within their boards of directors. Half the dominant firms are members of the Fortune 500 largest corporations in the country. They are heavy investors in, among other things, agribusiness, airlines, coal and oil, banking, insurance, defense contracts, automobile sales, rocket engineering, nuclear power, and nuclear weapons. Many have heavy foreign investments that are affected by American foreign policy.

"It is normal for all large businesses to make serious efforts to influence the news, to avoid embarrassing publicity, and to maximize sympathetic public opinion and government policies. Now they own most of the news media that they wish to influence. (Ben H. Bagdikian, *The Media Monopoly*, Boston, Mass., Beacon Press, 1992, pp. 3-6, 13-15, 20-26.)

Part XIII – Conclusion

Knowledge is power and those who control the flow of information are among the most powerful people in the world. Control of the media is highly concentrated in almost every area of the world – film studios, television, cable, satellite, radio, news services, journals, book and newspaper publishing, etc.

In the United States, three private corporations (all under the direction of the global elite), ABC, CBS, and NBC dominate and determine what the majority of people see and hear. These three monopolies feed over 600 local TV stations in the United States and spread their programs throughout the world. Over ninety percent of the news and entertainment appearing on American screens are distributed by the three networks.

Almost all of the 1,764 daily newspapers receive their news either from AP, UPI, the *New York Times* or the three TV networks.

Perpetuating the Ideology of the Elite

Programming on the three networks is overwhelmingly designed to perpetuate the values and ideology of the elite while suppressing contrary values and ideology.

Articles which appear on the wire services and in the elite newspapers of the world are designed to accomplish the same goals of enlightenment and suppression.

The large publishing houses are producing magazines, books, etc., which are also carefully designed to promote the global ideologies of the elite to maintain their status quo power structure intact and operating. Books, magazines, journals, etc., which oppose the global ideologies of the elite are not published by these large publishing empires.

The large media empires will continue to enlarge their corporations through mergers and acquisitions until we reach a point in time that five or six giant corporations control almost every phase of communication on earth. At this time, only ideas which perpetuate the elite power structures of the world will be disseminated to the inhabitants of the world.

Today, the giant empires have almost acquired total control of the media outlets in the world. There are, of course, small companies and organizations which produce material opposing the ideology of the global elite. However, their impact is negligible when compared to the tens of millions of people who are daily influenced by the television, radio and publishing (newspapers, magazines, journals, and books) industries controlled by the elite.

Through the control of the media in the United States and throughout the entire world, the elite are molding and indoctrinating the earth's inhabitants with a set of pernicious ideologies which are cleverly designed to persuade the people into transferring control over their lives to governmental institutions at the national and international level. They are also designed to make them suitable inhabitants of a future world-state established and managed by the elite of the world.

34. Hollywood – Corruption of the World Morality

A Longing for the Good Old Days

It seems like almost everyone would like to return to the "good old days" where the heroes wore white hats and "truth, justice and the American way" always triumphed. From restoring old houses to the purchase of small farms and ranches, people are more and more rejecting the modern world, its music, movies, politicians, big government and immoral lifestyles. People are looking for family values, stability, moral guidelines and a set of absolutes to guide them in a turbulent and violent world. People are leaving the big cities and moving to small communities. They are taking their children out of government schools and training them at home or putting them in private schools. More and more families are watching *Lassie*, *I Love Lucy*, and the old classic movies. They are rejecting modern movies and television shows and returning to shows which depict values and strong families. People are tired of Hollywood trying to remake the American society through their cultural relativism, immorality, violence, profanity, deception, attacks upon the Christian religion, the traditional family unit, patriotism and the basic principles of freedom and liberty. They are growing weary of hard rock music, drugs, processed foods and a basic attack upon everything good about America. They are tired of burdensome taxes, unnecessary, unwise and unconstitutional rules, regulations and laws. They know that something is terribly wrong. They feel that our leaders are rudderless and without principles. They feel that Hollywood is "out of control" and "out of touch" with reality, their lives and with the basic principles that made this nation the most prosperous and free nation on earth.

An Attempt to Escape the Pressures of Life

The American people are flocking to the mountains and country sides in America to escape the pressures of life and the constant bombardment of Hollywood and the media. They wonder what happened to Hollywood. When did the producers and directors turn against America and its traditional values?

Classic movie sales are increasing along with music from the 20s, 30s, 40s and 50s. Why? Because the music and films of yesterday promoted the principles and values they believe in and want to embrace. It was no accident that the films and

music of the early century were so dynamic, inspiring and uplifting. We have Martin Quigley and others to thank.

Origin of the Production Code

In 1929, Martin Quigley, an industry trade journal publisher, noticed a slight decrease in moral standards among the entertainment industry. After a brief study of the causes for this decline, Quigley decided to formulate a program to guide producers and directors in the film industry. He solicited the help of Rev. Daniel A. Lord of St. Louis. During the fall of 1929, they had produced a document known as "The Production Code."

Quigley interested Will H. Hays, president of the Motion Picture Producers and Distributors of America, Inc. in the Code and in January of 1930, it was presented to the producers in Hollywood. They responded favorably and the Production Code was adopted by the Producers Association. On March 31, 1930, the Code was adopted by the Board of Directors of the Motion Picture Producers and Distributors of America, Inc. The organization later became known as the Motion Picture Association of America, Inc.

The Production Code of 1930

The Production Code is a remarkable document. The guidelines stated the following:

The Code

"Motion picture producers recognize the high trust and confidence which have been placed in them by the people of the world and which have made motion pictures a universal form of entertainment.

"They recognize their responsibility to the public because of this trust and because entertainment and art are important influences in the life of a nation.

"Hence, though regarding motion pictures primarily as entertainment without any explicit purpose of teaching or propaganda, they know that the motion picture within its own field of entertainment may be directly responsible for spiritual or moral progress, for higher types of social life, and for much correct thinking.

"On their part, they ask from the public and from public leaders a sympathetic understanding of the problems inherent in motion picture production and a spirit of cooperation that will allow the opportunity necessary to bring the motion picture to a still higher level of wholesome entertainment for all concerned.

General Principles

"1. No picture shall be produced which will lower the moral standards of those who see it. Hence the sympathy of the audience shall never be thrown to the side of crime, wrong-doing, evil or sin.

"2. Correct standards of life, subject only to the requirements of drama and entertainment, shall be presented.

"3. Law – Divine, natural or human – shall not be ridiculed, nor shall sympathy be created for its violation.

Particular Applications

"I. CRIME:

"1. Crime shall never be presented in such a way as to throw sympathy with the crime as against law and justice, or to inspire others with a desire for imitation.

"2. Methods of crime shall not be explicitly presented or detailed in a manner calculated to glamorize crime or inspire imitation.

"3. Action showing the taking of human life is to be held to the minimum. Its frequent presentation tends to lessen regard for the sacredness of life.

"4. Suicide, as a solution of problems occurring in the development of screen drama, is to be discouraged unless absolutely necessary for the development of the plot, and shall never be justified, or glorified, or used specifically to defeat the ends of justice.

"5. Excessive flaunting of weapons by criminals shall not be permitted.

"6. There shall be no scenes of law-enforcing officers dying at the hands of criminals, unless such scenes are absolutely necessary to the plot.

"7. Pictures dealing with criminal activities in which minors participate, or to which minors are related, shall not be approved if they tend to incite demoralizing imitation on the part of youth.

"8. Murder: (a) The technique of murder must not be presented in a way that will inspire imitation. (b) Brutal killings are not to be presented in detail. (c) Revenge in modern times shall not be justified. (d) Mercy killings shall never be made to seem right or permissible.

"9. Drug addition or the illicit traffic in addition-producing drugs shall not be shown if the portrayal: (a) Tends in any manner to encourage, stimulate or justify the use of such drugs; or (b) Stresses, visually or by dialogue, their temporarily

attractive effects; or (c) Suggests that the drug procurement or of the taking of drugs in any manner; or (e) Emphasizes the profits of the drug traffic; or (f) Involves children who are shown knowingly to use or traffic in drugs.

"10. Stories on the kidnapping or illegal abduction of children are acceptable under the Code only (1) when the subject is handled with restraint and discretion and avoids details, gruesomeness and undue horror, and (2) the child is returned unharmed.

"II. BRUTALITY:

"Excessive and inhumane acts of cruelty and brutality shall not be presented. This includes all detailed and protracted presentation of physical violence, torture and abuse.

"III. SEX:

"The sanctity of the institution of marriage and the home shall be upheld. No film shall infer the casual or promiscuous sex relationships are the accepted or common thing.

"1. Adultery and illicit sex, sometimes necessary plot material, shall not be explicitly treated, nor shall they be justified or made to seem right and permissible.

"2. Scenes of passion: (a) These should not be introduced except where they are definitely essential to the plot. (b) Lustful and open-mouth kissing, lustful embraces, suggestive posture and gestures are not to be shown. (c) In general, passion should be treated in such manner as not to stimulate the baser emotions.

"3. Seduction or rape: (a) These should never be more than suggested, and then only when essential to the plot. They should never be shown explicitly. (b) They are never acceptable subject matter for comedy. (c) They should never be made to seem right and permissible.

"4. The subject of abortion shall be discouraged, shall never be more than suggested, and when referred to shall be condemned. It must never be treated lightly or made the subject of comedy. Abortion shall never be shown explicitly or by inference, and a story must not indicate that an abortion has been performed. The word 'abortion' shall not be used.

"5. The methods and techniques of prostitution and white slavery shall never be presented in detail, nor shall the subjects be presented unless shown in contrast to right standards of behavior. Brothels in any clear identification as such may not be shown.

"6. Sex perversion or any inference of it is forbidden.

"7. Sex hygiene and venereal diseases are not acceptable subject matter for theatrical motion pictures.

"8. Children's sex organs are never to be exposed. This provision shall not apply to infants.

"IV. VULGARITY:

"Vulgar expressions and double meanings having the same effect are forbidden. This shall include but not be limited to such words and expressions as chippie, fairy, goose, nuts, pansy, S.O.B., son-of-a. The treatment of low, disgusting, unpleasant, though not necessarily evil, subjects should be guided always by the dictates of good taste and a proper regard for the sensibilities of the audience.

"V. OBSCENITY:

"1. Dances suggesting or representing sexual actions or emphasizing indecent movements are to be regarded as obscene.

"2. Obscenity in words, gesture, reference, song, joke or by suggestion, even when likely to be understood by only part of the audience, is forbidden.

"VI. BLASPHEMY and PROFANITY:

"1. Blasphemy is forbidden. Reference to the Deity, God, Lord, Jesus, Christ, shall not be irreverent.

"2. Profanity is forbidden. The words 'hell' and 'damn,' while sometimes dramatically valid, will if used without moderation be considered offensive by many members of the audience. Their use shall be governed by the discretion and prudent advice of the Code Administration.

"VII. COSTUMES

"1. Complete nudity, in fact or in silhouette, is never permitted, nor shall there be any licentious notice by characters in the film of suggested nudity.

"2. Indecent or undue exposure is forbidden. (a) The foregoing shall not be interpreted to exclude actual scenes photographed in a foreign land of the natives of that land, showing native life, provided: (a) Such scenes are included in a documentary film or travelogue depicting exclusively such land, its customs and civilization; and (2) Such scenes are not in themselves intrinsically objectionable.

"VIII. RELIGION

"1. No film or episode shall throw ridicule on any religious faith.

"2. Ministers of religion, or persons posing as such, shall not be portrayed as comic characters or as villains so as to cast disrespect on religion.

"3. Ceremonies of any definite religion shall be carefully and respectfully handled.

"IX. SPECIAL SUBJECTS:

"The following subjects must be treated with discretion and restraint and within the careful limits of good taste:

"1. Bedroom scenes.

"2. Hangings and electrocutions.

"3. Liquor and drinking.

"4. Surgical operations and childbirth.

"5. Third degree methods.

"X. NATIONAL FEELINGS:

"1. The use of the flag shall be consistently respectful.

"2. The history, institutions, prominent people and citizenry of all nations shall be represented fairly.

"3. No picture shall be produced that tends to incite bigotry or hatred among peoples of differing races, religions or national origins. The use of such offensive words as Chink, Dago, Frog, Greaser, Hunkie, Kike, Nigger, Spig, Wop, Yid, should be avoided.

"XI. TITLES

"The following titles shall not be used:

"1. Titles which are salacious, indecent, obscene, profane or vulgar.

"2. Titles which violate any other clause of this code.

"XII. CRUELTY TO ANIMALS:

"In the production of motion pictures involving animals the producer shall consult with the authorized representative of the American Humane Association, and invite him to be present during the staging of such animal action. There shall

be no use of any contrivance or apparatus for tripping or otherwise treating animals in any unacceptably harsh manner.

Basic Premises of the Code

"I. Theatrical motion pictures, that is, pictures intended for the theatre as distinct from pictures intended for churches, schools, lecture halls, educational movements, social reform movements, etc., are primarily to be regarded as entertainment.

"Mankind has always recognized the importance of entertainment and its value in rebuilding the bodies and souls of human beings.

"But it has always recognized that entertainment can be of a character either helpful or harmful to the human race, and in consequence has clearly distinguished between:

"a. Entertainment which tends to improve the race, or at least to recreate and rebuild human beings exhausted with the realities of life; and

"b. Entertainment which tends to degrade human beings, or to lower their standards of life and living.

"Hence the moral importance of entertainment is something which has been universally recognized. It enters intimately into the lives of men and women and affects them closely; it occupies their minds and affections during leisure hours; and ultimately touches the whole of their lives. A man may be judged by his standard of entertainment as easily as by the standard of his work.

"So correct entertainment raises the whole standard of a nation.

"Wrong entertainment lowers the whole living conditions and moral ideals of a race.

"Note, for example, the healthy reactions to healthful sports, like baseball, golf; the unhealthy reactions to sports like cockfighting, bullfighting, bear baiting, etc.

"Note, too, the effect on ancient nations of gladiatorial combats, the obscene plays of Roman times. etc.

"II. Motion pictures are very important as art.

"Though a new art, possibly a combination art, it has the same object as the other arts, the presentation of human thought, emotion and experience, in terms of an appeal to the soul through the senses.

"Here, as in entertainment,

"Art enters intimately into the lives of human beings.

"Art can be morally good, lifting men to higher levels. This has been done through good music, great painting, authentic fiction, poetry, drama. Art can be morally evil in its effects. This is the case clearly enough with unclean art, indecent books, suggestive drama. The effect on the lives of men and women is obvious.

"Note: It has often been argued that art in itself is unmoral, neither good nor bad. This is perhaps true of the thing which is music, painting, poetry, etc. But the thing is the product of some person's mind, and the intention of that mind was either good or bad morally when it produced the thing. Besides, the thing has its effect upon those who come into contact with it. In both these ways, that is, as a product of a mind and as the cause of definite effects, it has a deep moral significance and an unmistakable moral quality.

"Hence: The motion pictures, which are the most popular of modern arts for the masses, have their moral quality from the intention of the minds which produce them and from their effects on the moral lives and reactions of their audiences. This gives them a most important morality.

"1. They reproduce the morality of the men who use the pictures as a medium for the expression of their ideas and ideals.

"2. They affect the moral standards of those who, through the screen, take in these ideas and ideals.

"In the case of the motion picture, this effect may be particularly emphasized because no art has so quick and so widespread an appeal to the masses. It has become in an incredibly short period the art of the multitudes.

"III. The motion picture, because of its importance as entertainment and because of the trust placed in it by the peoples of the world, has special moral obligations.

"A. Most arts appeal to the mature. This art appeals at once to every class, mature, immature, developed, undeveloped, law abiding, criminal. Music has its grades for different classes; so have literature and drama. This art of the motion picture, combining as it does the two fundamental appeals of looking at a picture and listening to a story, at once reaches every class of society.

"B. By reason of the mobility of a film and the ease of picture distribution, and because of the possibility of duplicating positives in large quantities, this art reaches places unpenetrated by other forms of art.

"C. Because of these two facts, it is difficult to produce films intended for only certain classes of people. The exhibitors' theatres are built for the masses, for

the cultivated and the rude, the mature and the immature, the self-respecting and the criminal. Films, unlike books and music, can with difficulty be confined to certain selected groups.

"D. The latitude given to film material cannot, in consequence, be as wide as the latitude given to the book material. In addition:

"a. A book describes; a film vividly presents. One presents on a cold page; the other by apparently living people.

"b. A book reaches the mind through words merely; a film reaches the eyes and ears through the reproduction of actual events.

"c. The reaction of a reader to a book depends largely on the keenness of the reader's imagination; the reaction to a film depends on the vividness of presentation.

"Hence many things which might be described or suggested in a book could not possibly be presented in a film.

"E. This is also true when comparing the film with the newspaper.

"a. Newspapers present by description, films by actual presentation.

"b. Newspapers are after the fact and present things as having taken place; the film gives the events in the process of enactment and with the apparent reality of life.

"F. Everything possible in a play is not possible in a film:

"a. Because the larger audience of the film, and its consequential mixed character. Psychologically, the larger the audience, the lower the moral mass resistance to suggestion.

"b. Because through light, enlargement of character, presentation, scenic emphasis, etc., the screen story is brought closer to the audience than the play.

"c. The enthusiasm for and interest in the film actors and actresses, developed beyond anything of the sort in history, makes the audience largely sympathetic toward the characters they portray and the stories in which they figure. Hence the audience is more ready to confuse actor and actress and the characters they portray, and it is most receptive of the emotions and ideals presented by its favorite stars.

"G. Small communities, remote from sophistication and from the hardening process which often takes place in the ethical and moral standards of groups in larger cities, are easily and readily reached by any sort of film.

"H. The grandeur of mass settings, large action, spectacular features, etc., affects and arouses more intensely the emotional side of the audience.

"In general, the mobility, popularity, accessibility, emotional appeal, vividness, straight-forward presentation of fact in the film make for more intimate contact with a larger audience and for greater emotional appeal.

"Hence the larger moral responsibilities of the motion pictures.

General Principles

"I. No picture shall be produced which will lower the moral standards of those who see it. Hence the sympathy of the audience should never be thrown to the side of crime, wrong-doing, evil or sin.

"This is done:

"1. When evil is made to appear attractive or alluring, and good is made to appear unattractive.

"2. When the sympathy of the audience is thrown on the side of crime, wrong-doing, evil, sin. The same thing is true of a film that would throw sympathy against goodness, honor, innocence, purity or honesty.

"Note: Sympathy with a person who sins is not the same as sympathy with the sin or crime of which he is guilty. We may feel sorry for the plight of the murderer or even understand the circumstances which led him to his crime. We may not feel sympathy with the wrong which he has done.

"The presentation of evil is often essential for art or fiction or drama. This in itself is not wrong provided:

"a. That evil is not presented alluringly. Even if later in the film the evil is condemned or punished, it must not be allowed to appear so attractive that the audience's emotions are drawn to desire or approve so strongly that later the condemnation is forgotten and only the apparent joy of the sin remembered.

"b. That throughout, the audience feels sure that evil is wrong and good is right.

"II. Correct standards of life shall, as far as possible, be presented.

"A wide knowledge of life and of living is made possible through the film. When right standards are consistently presented, the motion picture exercises the most powerful influences. It builds character, develops right ideals inculcates correct principles, and all this in attractive story form. If motion pictures

consistently hold up for admiration high types of characters and present stories that will affect lives for the better, they can become the most powerful natural force for the improvement of mankind.

"III. Law – divine, natural or human – shall not be ridiculed, nor shall sympathy be created for its violation.

"By natural law is understood the law which is written in the hearts of all mankind, the great underlying principles of right and justice dictated by conscience.

"By human law is understood the law written by civilized nations.

"1. The presentation of crimes against the law is often necessary for the carrying out of the plot. But the presentation must not throw sympathy with the crime as against the law nor with the criminal as against those who punish him.

"2. The courts of the land should not be presented as unjust. This does not mean that a single court may not be represented as unjust, much less that a single court official must not be presented this way. But the court system of the country must not suffer as a result of this presentation.

Particular Applications

"I. Sin and evil enter into the story of human beings and hence in themselves are valid dramatic material.

"II. In the use of this material, it must be distinguished between sins which repel by their very nature, and sins which often attract.

"a. In the first class come murder, most theft, many legal crimes, lying, hypocrisy, cruelty, etc.

"b. In the second class come sex sins, sins and crimes of apparent heroism, such as banditry, daring thefts, leadership in evil, organized crime, revenge, etc.

"The first class needs less care in treatment, as sins and crimes of this class are naturally unattractive. The audience instinctively condemns all such and is repelled.

"Hence the important objective must be to avoid the hardening of the audience, especially of those who are young and impressionable, to the thought and fact of crime. People can become accustomed even to murder, cruelty, brutality, and repellent crimes, if these are too frequently repeated.

"The second class needs great care in handling, as the response of human nature to their appeal is obvious. This is treated more fully below.

"III. A careful distinction can be made between films intended for general distribution, and films intended for use in theatres restricted to a limited audience. Themes and plots quite appropriate for the latter would be altogether out of place and dangerous in the former.

"Note: The practice of using a general theatre and limiting its patronage during the showing of a certain film to 'Adults Only' is not completely satisfactory and is only partially effective.

"However, maturer minds may easily understand and accept without harm subject matter in plots which do younger people positive harm.

"Hence: If there should be created a special type of theatre, catering exclusively to an adult audience, for plays of this character (plays with problem themes, difficult discussions and maturer treatment) it would seem to afford an outlet, which does not now exist, for pictures unsuitable for general distribution but permissible for exhibitions to a restricted audience.

"I. CRIMES AGAINST THE LAW

"The treatment of crimes against the law must not: 1. Teach methods of crime. 2. Inspire potential criminals with a desire for imitation. 3. Make criminals seem heroic and justified.

"Revenge in modern times shall not be justified. In lands and ages of less developed civilization and moral principles, revenge may sometimes be presented. This would be the case especially in places where no law exists to cover the crime because of which revenge is committed.

"Because of its evil consequences, the drug traffic should not be presented except under careful limitations.

"II. BRUTALITY

"Excessive and inhumane acts of cruelty and brutality have no proper place on the screen.

"III. SEX

"Out of regard for the sanctity of marriage and the home, the triangle, that is, the love of a third party for one already married, needs careful handling. The treatment should not throw sympathy against marriage as an institution.

"Scenes of passion must be treated with an honest acknowledgment of human nature and its normal reactions. Many scenes cannot be presented without arousing dangerous emotions on the part of the immature, the young or the criminal classes.

"Even within the limits of pure love, certain facts have been universally regarded by lawmakers as outside the limits of safe presentation.

"In the case of impure love, the love which society has always regarded as wrong and which has been banned by divine law, the following are important:

"1. Impure love must not be presented as attractive and beautiful.

"2. It must not be the subject of comedy or farce, or treated as material for laughter.

"3. It must not be presented in such a way as to arouse passion or morbid curiosity on the part of the audience.

"4. It must not be made to seem right and permissible.

"5. In general, it must not be detailed in method and manner.

"6. Certain places are so closely and thoroughly associated with sexual life or with sexual sin that their use must be carefully limited.

"IV. VULGARITY

"This section is intended to prevent not only obviously vulgar expressions but also double meanings that have the same effect.

"V. OBSCENITY

"Dances which suggest or represent sexual actions, whether performed solo or with two or more; dances intended to excite the emotional reaction of an audience; dances with movement of the breasts, excessive body movements while the feet are stationary, violate decency and are wrong.

"This section likewise applies to obscene words, gestures, references, songs, jokes and gags.

"VI. BLASPHEMY AND PROFANITY

"It is clear that neither blasphemy nor profanity should be permitted on the screen.

"VII. COSTUMES

"General principles:

"1. The effect of nudity or semi-nudity upon the normal man or woman, and much more upon the young and upon immature persons, has been honestly recognized by all lawmakers and moralists.

"2. Hence the fact that the nude or semi-nude body may be beautiful does not make its use in the films moral. For, in addition to its beauty, the effect of the nude or semi-nude body on the normal individual must be taken into consideration.

"3. Nudity or semi-nudity used simply to put a 'punch' into a picture comes under the head of immoral actions. It is immoral in its effect on the average audience.

"4. Nudity can never be permitted as being necessary for the plot. Semi-nudity must not result in undue or indecent exposures.

"5. Transparent or translucent materials and silhouette are frequently more suggestive than actual exposure.

"VIII. RELIGION

"The reason why ministers of religion may not be portrayed as comic characters or as villains so as to cast disrespect on religion is simply because the attitude taken toward them may easily become the attitude taken toward religion in general. Religion is lowered in the minds of the audience because of the lowering of the audience's respect for a minister.

"IX. SPECIAL SUBJECTS

"Such subjects are occasionally necessary for the plot. Their treatment must never offend good taste nor injure the sensibilities of an audience.

"The use of liquor should never be excessively presented. In scenes from American life, the necessities of plot and proper characterization alone justify its use. And in this case, it should be shown with moderation.

"X. NATIONAL FEELINGS

"The just rights, history, and feelings of peoples and nations are entitled to most careful consideration and respectful treatment.

"XI. TITLES

"As the title of a picture is the brand on that particular type of goods, it must conform to the ethical practices of all such honest business.

"XII. CRUELTY TO ANIMALS

"The purpose of this provision is to prevent the treatment of animals in films in any unacceptably harsh manner."

Hollywood Abandons the Production Code

The Production Code apparently guided Hollywood from 1930 until 1960. However, in the 60s a transformation began to occur among the producers, directors, writers, etc., in Los Angeles. They began to abandon the standards of the Code and replace it with a "code of relativism." As Hollywood embraced cultural relativism and secularism, the music and films changed dramatically. Instead of upholding the values of previous decades, they began to attack and undermine them. A wide gulf prepared between the traditional American family and movie goers and the new elite that had taken over the entertainment industry. A cultural war erupted and intensified as each year passed. It is a war over traditions, morals and principals of conduct and belief. It is a war over who will control American culture and is being waged in the areas of art, music, film, video, CD-Roms, theatre and printed media. The cultural war is being waged by Hollywood's producers, directors, writers, studio owners and financial backers. Hollywood has declared war on traditional family unity, basic moral principles, the Christian religion as espoused in the Holy Bible, patriotism, the founding fathers, limited constitutional government state and national sovereignty, natural rights, property rights and free market economics. Hollywood is promoting cultural relativism where, according to their secular worldview, there is no right and wrong, no God and no absolutes. Hollywood is financed and controlled by some of the most powerful and wealthy men and groups on earth. The goal of Hollywood is to transform America and the world – a truly awesome task. Backed by billions of dollars, the film industry in Hollywood produces hundreds of R-rated and PG-13 rated movies each year designed to subtly and not so subtly, teach the youth and adults of America that cultural relativism is the only guide in today's world. The pornography industry, also located near Hollywood, is now a billion dollar business and growing.

Hollywood, a former bastion of conservative values and true heroes, has gone liberal, secular and new age.

Hollywood Stars Support Liberals

According to *USA Today*, Hollywood is liberal and the figures prove it.

"A list of '94 contributions compiled by the Media Research Center shows overwhelming celeb support for Democrats.

"Top contributors: Steven Spielberg, Jeffrey Katzenberg and David Geffen, all of whom gave \$100,000 to the Democratic National Committee and other sums to specific candidates.

"They're a political force to be dealt with," says MRC's Sandy Campbell. Barbra Streisand is 'powerful' in drawing attention to DNC [Democratic National Committee] candidates, 'and now there's these three fat cats with their studio. That's going to be the No. 1 stop for Democratic contenders. I'm sure Bill Clinton will be stopping by in the next two years.'

"The No. 2 star DNC contributor: Sylvester Stallone ((\$80,000) – a surprise, says Campbell, as he's often considered conservative....

"Sums up Campbell: 'There was a shift to the right in the election [1994], and a subtle shift to the right in entertainment. But...entertainers are coming up solidly in the liberal camp.'" (*USA Today*, February 17, 1995, p. 2D.)

America's New Civil War

In 1992, the Chicago Tribune Service published a fascinating article by Patrick J. Buchanan, the former co-host of Crossfire. The article was entitled, "The Battle Lines Are Clearly Drawn for America's Fierce Cultural War." Buchanan argues that, "Americans are locked in a cultural war for the soul of our country.

"What is it all about? As columnist Sam Francis writes, it is about power; it is about who determines 'the norms by which we live, and by which we define and govern ourselves.' Who decides what is right and wrong, moral and immoral, beautiful and ugly, healthy and sick? Whose beliefs shall form the basis of law?

"At Houston, William Rusher writes, America heard 'the first rumbles of a new storm...fast approaching the American political arena [a storm] that will quickly replace the old battles over the conduct of the Cold War...' Indeed, the storm has already hit the coast.

"The Bosnia of the cultural war is abortion.

"The Republican Party, in platform and ticket, is 'pro-life.' I.e., we hold an abortion to be the unjust killing of a pre-born child. Mr. Clinton's party rejoices in *Roe vs. Wade*. To one side, the 25 million abortions in 20 years are a testament to freedom and progress; to the other, they are the benchmarks of a society literally hellbent on suicide. The conflicting positions can no more be reconciled than those of John Brown and John Calhoun.

"Whose side is God on? In an angry letter to President Bush, the National Council of Churches wrote: 'We need to be very clear that God belongs to no one

side, for we believe we all belong to God.' Mr. Bush's effort to conscript Him, they wrote, is 'blasphemous.'

"But was it blasphemous to enlist Him at Selma Bridge? Is the Creator truly neutral in the unequal struggle between his tiniest creatures and the abortionist with his knife and suction pump?

"To those gathered at Madison Square Garden, a man's 'sexual preference' and sexual conduct, so long as it is consensual is irrelevant to moral character. To most of us in Houston, however, it is the codification of amorality to elevate gay liaisons to the same moral and legal plane as traditional marriage.

Many Americans Possess a Biblical Worldview

"Americans are a tolerant people. But a majority believes that the sexual practices of gays, whether a result of nature or nurture, are both morally wrong and medically ruinous. Many consider this 'reactionary' or 'homophobic.' But our beliefs are rooted in the Old and New Testament, in natural law and tradition, even in the writing of that paragon of the Enlightenment, Thomas Jefferson (who felt homosexuality should be punished as severely as rape.)

"Thirty years ago, both sides in today's cultural war shared the belief that homosexuals, be they 2 percent or 10 percent of the population, had the same constitutional rights as the rest of us, as well as a right to be let alone. We still do. Homosexuality was not an issue then. What makes it an issue now is the non-negotiable demand that this 'life style' be sanctioned by law, that gays be granted equal rights to marry, adopt and serve as troop leaders in the Cub Scouts.

"Let me be blunt: We can't support this. To force it upon us is like forcing Christians to burn incense to the emperor.

The Cultural War

"But, the cultural war is broader than two battlegrounds.

"We see it in the altered calendar of holidays we are invited – nay, instructed – to celebrate. Washington's Birthday disappears into Presidents Day. States, like Arizona, that balk at declaring Martin Luther King's birthday a holiday face political censure and convention boycotts. Easter is displaced by Earth Day, Christmas becomes winter break, Columbus Day a day to reflect on the cultural imperialism and genocidal racism of the 'dead white males' who raped this continent while exterminating its noblest inhabitants.

"Secularism's Holy Days of Obligation were not demanded by us; they were imposed on us. And while Gov. Cuomo may plausibly plead ignorance of the cultural war, the Hard Left has always understood its criticality.

"Give me the child for six years, Lenin reportedly said, quoting the Jesuits, and he will be a Marxist forever. J.V. Stalin, who was partial to Chicago gangster films, thought that only if he had control of Hollywood, he could control the world.

Waging Cultural War on the West

"Too many conservatives, writes art critic James Cooper, 'never read Mao Tse-tung on waging cultural war against the West. [Mao's] essays were prescribed reading for the Herbert Marcuse generation of the 1960s, who now run our cultural institutions.... Conservatives were oblivious to the fact that...modern art – long separated from the idealism of Monet, Degas, Cezanne and Rodin – had become the purveyor of a destructive, degenerate, ugly, pornographic, Marxist, anti-American ideology.' While we were off aiding the Contras, a Fifth Column inside our own country was capturing the culture.

Hollywood vs. American People

"In wartime and postwar movies, the USA was a land worth fighting for, even dying for. But the distance from 'The Sands of Iwo Jima' to 'Born on the Fourth of July,' from 'The Song of Bernadette' to 'The Last Temptation of Christ,' which paints Jesus as a lustful, lying wimp, is more than four decades. Hollywood has crossed a cultural and religious divide – and left us on the other side.

Hollywood Standards Are Gone

"Today, the standards are gone. Does it make a difference? Only if you believe books and plays and films and art make a difference in men's lives. Only if you believe Ideas have Consequences.

"In *The End of Christendom*, the late Malcolm Muggeridge writes that Dostoyevsky, 'in his astoundingly prophetic novel, *The Devils*,...make his character Peter Vekovinsky...say, 'A generation or two of debauchery followed by a little sweet blood-letting and the turmoil will begin.' So indeed it has.'

"Poets are the unacknowledged legislators of the world,' wrote the poet Shelley. Does it make a difference that school kids in L.A., who never heard of Robert Frost, can recite the lyrics of Ice-T and 2 Live Crew? Ask the people of Koreatown.

The Origin of the L.A. Mob

"Where did that L.A. mob come from?

"It came out of public schools from which the Bible and Ten Commandments were long ago expelled. It came out of drugstores where pornography is everywhere on the magazine rack. It came out of movie theaters and away from

TV sets where sex and violence are romanticized. It came out of rock concerts where rap music extols raw lust and cop-killing. It came out of churches that long ago gave themselves up to social action, and it came out of families that never existed.

"When the Rodney King verdict came down, and the rage boiled within, these young men had no answer within themselves to the questions: Why not? Why not loot and burn? Why not settle accounts with the Koreans? Why not lynch somebody – and get even for Rodney King?

Secularists Have Captured American Culture

"The secularists who have captured our culture have substituted a New Age Gospel, with its governing axioms: There are no absolute values in the universe; there are no fixed and objective standards of right and wrong. There is no God. It all begins here and it ends here. Every man lives by his own moral code. Do you own thing. Well, the mob took them at their word, and did its own thing.

"'Of all the dispositions and habits which lead to prosperity,' Washington said, 'religion and morality are indispensable supports. In vain would that man seek the tribute of patriotism, who should labor to subvert these great pillars of human happiness.'

"It is the Adversary Culture that has subverted these pillars.

"Look at the works of 'art' that ignited the controversy at the National Endowment. Almost all were desecrations of Christian images. Andres Serrano submerged a crucifix in a vat of his own urine. Robert Mapplethorpe took a statue of the Virgin Mother of God and twisted it into a bloody tie rack.

"Writing in an art catalog funded by NEA, an AIDS activist called Cardinal John O'Connor a 'fat cannibal from that house of walking swastikas up on Fifth Avenue.' That 'house of walking swastikas' was St. Patrick's Cathedral, subsequently desecrated by militants who spat consecrated hosts on the floor at Sunday Mass.

"Yes, Mario, there is a connection.

Cultural War Is Raging in Public Schools

"The cultural war is already raging in our public schools.

"In history texts Benedict Arnold's treason at West Point has been dropped. So has the story of Nathan Hale, the boy-patriot who spied on the British and went to the gallows with the defiant cry, 'I regret that I have but one life to give for my

country.' Elsewhere, they teach that our Constitution was plagiarized from the Iroquois, that Western science was stolen from sub-Saharan Africa.

"The name Custer has been stricken from the battlefield where his unit fell. Demands are heard throughout the South that replicas of the Battle Flag of the Confederacy be removed from state flags and public buildings. The old iron Confederate soldier who stood for decades in the town square must be removed; after all, he fought in an ignoble cause.

"Slavery vs. freedom, that's all it was about, they tell us. But, go up to Gettysburg, and park your car behind the Union center. Look across that mile-long field, and visualize 15,000 men and boys forming up at the tree line. See them walking across into the fire of cannon and gun, knowing they would never get back, never see home again. Nine of ten never even owned a slave. They were fighting for the things for which men have always fought: family, faith, friends and country. For the ashes of their fathers and the temples of their gods.

The Battle to Separate Children from Their Parents

"If a country forgets where it came from, how will its people know who they are? Will America one day become like that poor old man with Alzheimer's abandoned in the stadium, who did not know where he came from, or to what family he belonged? The battle over our schools is part of the war to separate parents from children, one generation from another, and all Americans from their heritage.

"Our 'common difficulties...concern, thank God, only material things,' FDR said at the nadir of the Depression. Our national quarrel goes much deeper. It *is* about 'who we are' and 'what we believe.' Are we any longer 'one nation, under God;' or has one-half of that nation already begun to secede from the other?

"That, Mario, is what the cultural war is all about. (Chicago Tribune Service, September 21, 1992.)

Ideas Have Consequences

According to Buchanan, "In wartime and postwar movies, the USA was worth fighting for, even dying for. But the distance from 'The Sands of Iwo Jima' to 'Born on the Fourth of July'...is more than four decades. Hollywood has crossed a cultural and religious divide – and left us on the other side.

"Today, the standards are gone. Does it make a difference? Only if you believe books, plays, film and art make a difference in men's lives. Only if you believe ideas have consequences." (Ibid.)

Hollywood vs. America is Published

While Buchanan's article may have irked the modern relativists who dominate Hollywood, Michael Medved stunned the writers and producers of the film industry when he published his incredibly revealing expose entitled, *Hollywood vs. America: Popular Culture and the War on Traditional Values*. Medved, a graduate of Yale University, author of six nonfiction books, a screenwriter and co-host of "Sneak Previews," directly confronted the Hollywood elite and outlined the "Cultural War" being waged by those media moguls and their small, yet influential, fraternity in Los Angeles, New York, etc. Let us review this remarkable book. It is one book which you will want to have in your library.

Leading Film Critic Critical of Hollywood

The cover to *Hollywood vs. America* asked this important question:

"Why does our popular culture seem so consistently hostile to the values that most Americans hold dear? Why does the entertainment industry attack religion, glorify brutality, undermine the family, and deride patriotism?"

"In this explosive book, one of the nation's best known film critics examines how Hollywood has broken faith with its public, creating movies, television, and popular music that exacerbate every serious social problem we face, from teenage pregnancies to violence in the streets.

"Michael Medved powerfully argues that the entertainment business follows its own dark obsessions, rather than giving the public what it wants: In fact, the audience for feature films and network television has demonstrated its profound disillusionment in recent years, with disastrous consequences for many entertainment companies. Meanwhile, overwhelming numbers of our fellow citizens complain about the wretched quality of our popular culture – describing the offerings of the mass media as the worst ever. Medved asserts that Hollywood ignores – and assaults – the values of ordinary American families, pursuing a self-destructive and alienated ideological agenda that is harmful to the nation at large and to the industry's own interests.

"In hard-hitting chapters on "The Attack on Religion," "The Addiction to Violence," "Promoting Promiscuity," "The Infatuation with Foul Language," "Kids Know Best," "Motivations for Madness," and other subjects, Medved outlines the underlying themes that turn up again and again in our popular culture. He also offers conclusive evidence of the frightening real-world impact of these messages on our society and our children.

"Finally, Medved shows where and how Hollywood took a disastrous wrong turn toward its current crisis, and he outlines promising efforts both in and outside

the industry to restore a measure of sanity and restraint to our media of mass entertainment.

"Sure to elicit strong response, whether it takes the form of cheers of support or howls of enraged dissent, *Hollywood vs. America* confronts head-on one of the most significant issues of our times."

(*Hollywood vs. America: Popular Culture and the War on Traditional Values*, New York: Harper Collins Publishers, 1992, cover jacket,)

Praise for Medved's Book

The publication of Michael Medved's book *Hollywood vs. America: Popular Culture and the War on Traditional Values* brought immediate praise from individuals within the media. Jim Svedja, a film critic at CBS Radio, said:

"Michael Medved is not only the most perceptive and persuasive of the major American film critics, but he is also the most courageous. While his new book will not endear him to many studio executives, it is easily the most provocative study of the moral implications of film ever written."

George Gilder, author of *Life After Television and Wealth and Poverty*, stated that:

"Michael Medved understands movies and the movie business better than anyone else in America. Here he puts the entertainment industry's stars and stooges on candid camera and gives shocking proof that Hollywood is forfeiting both profits and paying customers in a crazy campaign to foist its own loony lifestyles and muddled world views on the American people."

The comedian and actor, Steve Allen, wrote:

"Everyone – left, right and middle – is perfectly aware that we are in a period of cultural and moral collapse. But some people don't want to concede that the popular media bear part of the responsibility. Michael Medved's book should convince them that it does." (Medved, cover jacket.)

Alienating the Audience

According to Michael Medved, "America's long-running romance with Hollywood is over.

"As a nation, we no longer believe that popular culture enriches our Lives. Few of us view the show business capital as a magical source of uplifting entertainment, romantic inspiration, or even harmless fun. Instead, tens of millions of Americans now see the entertainment industry as an all-powerful enemy, an alien force that

assaults our most cherished values and corrupts our children. The dream factory has become the poison factory.

"The leaders of the industry refuse to acknowledge this rising tide of alienation and hostility. They dismiss anyone who dares to question the impact of the entertainment they produce as a "right-wing extremist or a "religious fanatic." They self-righteously assert their own right to unfettered free expression while condemning as "fringe groups" all organizations that plead for some sense of restraint or responsibility. In the process, Hollywood ignores the concerns of the overwhelming majority of the American people who worry over the destructive messages so frequently featured in today's movies, television, and popular music.

"Dozens of recent studies demonstrate the public's deep disenchantment. In 1989, for instance, an Associated Press/Media General poll showed that 82 percent of a scientifically selected sample felt that movies contained too much violence; 80 percent found too much profanity; and 72 percent complained of too much nudity. By a ratio of more than three to one, the respondents believed that "overall quality" of movies had been "getting worse" as opposed to 'getting better.'

Support for Traditional Values

"In 1990, a *Parents* magazine poll revealed similar attitudes toward television. Seventy-one percent of those surveyed rated today's TV as 'fair, poor, or terrible.' Seventy-two percent of this sample supported strict prohibitions against 'ridiculing or making fun of religion' on the air, while 64 percent backed restrictions on 'ridiculing or making fun of traditional values, such as marriage and motherhood.' A Gallup Poll in 1991 turned up additional evidence of the public's suspicious and resentful attitude toward televised entertainment. Fifty-eight percent of Americans said that they are "offended frequently or occasionally" by prime-time programming; only three percent believed that TV portrayed 'very positive' values.

Mass Entertainment Is Encouraging Social Problems

"This widespread concern over the messages of the popular culture stems from an increasingly common conviction that mass entertainment exacerbates our most serious social problems. A Time/CNN surveyed in 1989 showed that 67 percent believe that violent images in movies are '*mainly* to blame' for the national epidemic of teenage violence; 70 percent endorse 'greater restraints on the showing of sex and violence' in feature films. A *Los Angeles Times* survey of the same year reported 63 percent who assert that television 'encourages crime,' while a 1991 *Newsweek*/Gallup Poll showed 68 percent who hold that today's movies have a 'considerable' or 'very great' effect in causing real-life violence.

Hollywood Ignores Traditional Values

___ "The Hollywood establishment chooses to ignore these public attitudes, or else to downplay their significance. Surveying the severe financial problems that currently plague every component of the entertainment industry, the top decision-makers see nothing more than a temporary slump in business. In one typical comment, John Neal, senior vice president for marketing for United Artists Entertainment, optimistically declared: 'All it takes is one big hit movie and suddenly the whole picture changes.'

"That 'one big hit movie,' however, will do nothing to end the alienation of an increasingly significant segment of the mainstream audience. The public's growing disillusionment with the content of the popular culture represents a long-term trend that won't suddenly disappear with the end of a recession, or the release of a new batch of lucky box-office blockbusters. The depth and breadth of the current crisis suggests fundamental flaws in the sort of entertainment that Hollywood, in all of its many manifestations, seeks to sell to the American people. That is why ventures as varied as home video and rock 'n' roll radio, feature films and prime-time television, are all suffering similar and simultaneous setbacks.

Television Networks Have Lost One Third of Their Audience

"Consider, for example, the baleful situation with the three major television networks. In the last fifteen years they have lost a third of their nightly audience – some 30 million viewers. As a result, their cumulative profits have sunk from \$800 million in 1984 to \$400 million by 1988, to less than zero in 1991. Business analysts advance many theories for this disastrous falloff, but even television insiders consider that much of the public's disenchantment relates directly to the quality of the programs. 'The networks have lost audiences because they've lost touch with the American viewer,' according to Gene DeWitt, head of a prestigious New York media consulting firm interviewed by *Time* in November 1990. 'They haven't delivered programs that viewers want to watch.'

"Syndicated columnist Mike Royko spoke for many Americans when he recently declared, 'I enjoy TV trash as much as the next slob. But the quality of truly trashy trash has declined.' He went on to explain that of the top seventy-one shows in the Nielsen Ratings, 'there isn't even one that I now watch regularly.' His fellow columnist Cal Thomas announced his resolution at the end of 1990 to give up watching the networks altogether. 'They have not only abandoned my values,' he wrote, 'they now have sunk to the sewer level, dispensing the foulest of smells that resemble the garbage I take to the curb twice a week.'"

"Many of the major networks' lost viewers have fled to the new Fox Network, or to the abundance of alternatives on cable TV, but these additional options have done nothing to increase the public's approval of what it is watching. A survey commissioned by the National Association of Broadcasters found that a growing

number of households with TV sets 'feel increasing dissatisfaction' and that 'the majority of viewers believe television is a negative influence.'

Channel Surfing

"One reflection of viewer restlessness is the tendency toward 'grazing' in their nightly viewing – using remote controls to switch stations in the middle of a program. According to a major survey for *Channels* magazine in 1988, 48.5 percent of all viewers regularly change programs during a show – and nearly 60 percent of viewers in the crucial eighteen-to-thirty-four age group. 'Grazing is by definition a sign of dissatisfaction,' explained James Webster, professor of communications at Northwestern University. 'Viewers know what is going to happen, and they wonder what they're missing on some other channel.' According to the Gallup Poll, in 1974, 46 percent of Americans rated watching television as their favorite way of spending an evening; by 1990, that number had fallen to 24 percent.

"This diminished enthusiasm for the popular culture and its products has even infected the huge teenage audience for popular music – an audience never before noted for its finicky taste or searching discernment. Overall sales of records, cassettes, and CDs plummeted a disastrous 11 percent in the first six months of 1991, and signs of restlessness and frustration turned up everywhere in the music business. Bob Krasnow, chairman of Elektra Entertainment, told *Billboard* magazine: 'In 1991, the record business finds itself dangerously close to creative stagnation. All the formulas have been played out.' Meanwhile, numerous articles asked 'Is rock dead?' while all measures of public response suggested that this once robust art form was, at best, on life-support systems.

"For instance, rock 'n' roll's share of the music industry's total take slipped from 46.2 percent in 1988 to 37.4 percent in 1990. Just weeks before his death in October 1991, the legendary concert promoter Bill Graham observed that 'until now, rock was recession proof...but we have just gone through the worst six months ever in the rock concert industry.' Attendance at rock concerts across the nation plunged by more than 30 percent compared to the previous year.

"At the same time, the 'Top 40' radio format continued its longterm slide in the Arbitron radio ratings, abandoned by even those teenagers who have always provided its core of support. In 1991 an unprecedented 56 percent of the teenage radio audience preferred listening to other formats; as a result, country and western for the first time passed Top 40 in overall popularity. In fact, the steady growth in the audience for country music, with its earthy and unpretentious attempts to connect with the everyday concerns of Middle America, provided one of the few bright spots in the general gloom of the music business. Country star Garth Brooks confounded all expectations by creating 1991's top-selling album, *Ropin' the Wind*, which is expected to reach sales of more than 7 million units. Music industry

analyst Bob Lefsetz, publisher of *The Lefsetz Letter*, declares, 'Country music, unlike the rest of popular music, is talking about real lives. About real people. These artists are telling you what they feel. They're making honest records, and that's why their music is connecting with the public.'

Feature Films

"Feature films, by contrast, are connecting with a shrinking percentage of the American people. Sharply increased ticket prices and the controversial content of recent films have combined to make moviegoing a form of entertainment that appeals primarily to an elite audience. According to 1991 figures from the Motion Picture Association of America, 27 percent of those who have attended college describe themselves as 'frequent' moviegoers, but only 11 percent of those who failed to complete high school place themselves in that category. More significantly, 45 percent of *all* Americans are identified as 'infrequent' moviegoers (less than twice a year), and a full 33 percent declared that *never* go to the movies. Several other recent studies (Gallup, Gordon Black Corporation, Barna Research Group, Media General) show similar percentages (ranging from 35 up to 45 percent) who stay away from motion pictures altogether.

"The absence of these potential patrons has devastated the movie business. At the height of the usually prosperous summer season, ticket sales plunged more than 31 percent in 1991, bringing the feature film business its worst August in twenty-three years. Even video rentals, whose seemingly inexorable rise has played such a significant role in keeping struggling studios afloat, declined 6 percent during the year. Industry analysts reported that poor audience response to the new feature films had begun to rub off on the home video business, producing a new wariness on the part of prospective renters.

"An upsurge in ticket sales during the holiday season generated some reassuring headlines about the movie business, but year-end reckonings offered no real grounds for joy. According to figures from *Variety*, 1991 brought only 960 million motion picture admissions – the lowest total in fifteen years. The first months of 1992 confirmed the disastrous long-term trend: according to Exhibitor Relations Co., a widely used box-office data tracking firm, movie grosses between January 1 and April 15, 1992, fell an additional 9 percent from their already dismal performance of the previous year. This meant reduced income for the major studios of some \$200 million. During the usually busy Presidents' Day weekend, *Variety* reported that movie admissions fell a spectacular 30 percent from 1991.

Precarious Economic Situation of Studios

"As a result of the shrinking movie audience, the precarious economic situation of the major studios began attracting headlines of its own. Two of the industry's most important and respected production companies, Orion and MGM, have recently frozen their release and production schedules as they teeter on the verge of

financial collapse. Cannon Films and Weintraub Entertainment Group, both of them well-financed and high-flying independents as recently as a few years ago, have now closed down altogether. Even Carolco Pictures, producer of the year's top hit, *Terminator 2*, found itself forced to cut production and to lay off one-fourth of its employees as part of its December 1991 retrenchment plan.

"Peter Dekom, the universally respected entertainment lawyer and show business analyst, describes the current condition of the movie industry as "a catastrophe." In a widely circulated September 1991 memo entitled 'Chicken Little Was Right,' he concludes that 'We in the industry are all wondering how we keep our life-styles together, because each and every one of us knows this simply cannot go on.'

Hollywood Is in Serious Trouble

"Even without the pronouncements of experts, ordinary Americans understand that Hollywood is in serious trouble. As a point of reference, ask yourself a simple question: when was the last time that you heard someone that you know say that movies – or TV, or popular music, for that matter – were better than ever? On the other hand, how recently have you listened to complaints about the dismal quality of the movies at the multiplex, the shows on the tube, or the songs on the radio?

"In recent years, not even Jack Valenti, the well-paid cheerleader for the Motion Picture Association, can claim with a straight face that the movie business is scaling new artistic heights. David Puttnam, Oscar winning producer of *Chariots of Fire* and former chairman of Columbia Pictures, reports, 'As you move around Hollywood in any reasonably sophisticated group, you'll find it quite difficult to come across people who are proud of the movies that are being made.' In December 1991, industry journalist Grover Lewis went even further when he declared in the pages of the *Los Angeles Times*: 'The movies, which many of us grew up regarding as the co-literature of the age, have sunk to an abysmal low unimaginable only a few years ago.'

A Collapse in Caliber of Films

"In fact, nearly everyone associated with the industry acknowledges the obvious collapse in the caliber of today's films, and at the same time manages to blame someone else for the disastrous situation.

"Jeffrey Katzenberg, production chief at the beleaguered Walt Disney Studios, shrugs his shoulders and cites inscrutable Higher Powers. 'We're in the hands of the movie gods,' he told the *Los Angeles Times*, 'who will either shine down and give us good fortune or not.... That's part of what keeps people going in this business – the magical and mysterious nature of it.'

"Producer Gene Kirkwood (*Rocky*) offers a less "magical and mysterious" explanation for Hollywood's troubles, pointing his finger at the writers. "When you look at the writing that's around today, most of which is not very good, it makes you want to go back to the old films," he explains. One of the writers of those old films, Oscar-winner I. A. L. Diamond (*The Apartment*) in turn cites "the lawyers and agents who run the studios, and the subliterate subteenagers who form the bulk of the audience" for creating the present problems. Julia Phillips, the outspoken outcast who produced *The Sting*, specifically accuses Mike Ovitz, head of the Creative Artists Agency, who "first ruined movies, then sold out to the Japanese."

"Film critic Michael Sragow manages to identify an even more nefarious and omnipotent culprit, blaming the industry's whole sorry mess on an over-the-hill Warner Brothers star who actually abandoned the movie business more than twenty years ago. Asserting that "American movies are still reaping the harvest of Ronald Reagan's reign of mediocrity and escapism," Sragow concluded in 1990 that it was actually the former President who "ate Hollywood's brain."

A Crisis of Values in Hollywood

"While searching for scapegoats, the entertainment industry ignores the obvious: that Hollywood's crisis is, at its very core, a crisis of values. It's not 'mediocrity and escapism' that leave audiences cold, but sleaze and self-indulgence. What troubles people about the popular culture isn't the competence with which it's shaped, but the messages it sends the view of the world it transmits.

"Hollywood no longer reflects – or even respects – the values of most American families. On many of the important issues in contemporary life, popular entertainment seems to go out of its way to challenge conventional notions of decency. For example:

"Our fellow citizens cherish the institution of marriage and consider religion an important priority in life; but the entertainment industry promotes every form of sexual adventurism and regularly ridicules religious believers as crooks or craziest.

"In our private lives, most of us deplore violence and feel little sympathy for the criminals who perpetrate it; but movies, TV, and popular music all revel in graphic brutality, glorifying vicious and sadistic characters who treat killing as a joke.

"Americans are passionately patriotic, and consider themselves enormously lucky to live here; but Hollywood conveys a view of the nation's history, future, and major institutions that is dark, cynical, and often nightmarish.

"Nearly all parents want to convey to their children the importance of self-discipline, hard work, and decent manners; but the entertainment media celebrate vulgar behavior, contempt for all authority, and obscene language – which is inserted even in 'family fare' where it is least expected.

An Assault on Traditional Values

"As a working film critic, I've watched this assault on traditional values for more than a decade. Not only have I endured six or seven movies every week, year after year, but I've also received a steady stream of letters from moviegoers who are upset by one or another of Hollywood's excesses. At times, they blame me for failing to warn them ardently enough about avoiding a particular film; in other cases they are writing to express their pent-up frustration with an industry that seems increasingly out of control and out of touch. My correspondents frequently use words such as 'disgusting' or 'pathetic' to describe the sorry state of today's films. In 1989 a young woman from Westport, Connecticut, expressed these sentiments with memorable clarity. 'The problem is that whenever I take a chance and go against my better judgment and venture back into a movie theater,' she wrote, 'I always feel like a worse person when I come out. I'm embarrassed for the people who made this trash, and I'm embarrassed for myself. It's like watching the stuff that I've just watched has made me a smaller human being. Isn't that sad?'

"It is terribly sad, especially in view of the technical brilliance that turns up in so many of Hollywood's most recent productions. When people express their disappointment at the generally low level of contemporary films, they seldom indict the camera work, the editing, the set design, or even the acting. In fact, these components of moviemaking have reached a level of consistent competence even artistry – that would be the envy of Hollywood's vaunted Golden Age. I regularly marvel at gorgeous and glowing visual images, captured on screen in the service of some pointless and heartless waste of celluloid, or sympathize with an ensemble of superbly talented performers, acting their hearts out, and trying to make the most of empty material that is in no way worthy of them. If Robert De Niro and Dustin Hoffman have failed to inspire the sort of devoted and consistent following once enjoyed by Jimmy Stewart or John Wayne, it is not because they are less capable as actors. What ails today's films has nothing to do with the or professionalism of the filmmakers. The true sickness is in the soul. (Medved, pp. 3-11.)

A War Against Standards

Michael Medved points out that a cultural war is being waged by Hollywood against America and the world. He states that the "cultural battle before us..." is "in its essence, a war against standards. It is a war against judgment." (Medved., p. 21.)

Medved quotes Michael Hudson, executive vice president of the liberal (and Hollywood-funded) lobbying group People for the American Way as saying that "We are in the midst of a culture war.... The extremist right-wing political movement no longer has the evil of communism to fight. So they look to other fields, including putting on economic pressure to boycott television programming." (Medved, p. 22.)

Medvid goes on to say, "The other side of the political spectrum views the struggle over cultural issues with similarly ferocious intensity. According to conservative Congressman Henry Hyde (R-Illinois), America is already 'involved in a Kulturkampf...a war between cultures and a war about the meaning of culture.' Columnist Pat Buchanan announced that 'the arts crowd...is engaged in a cultural struggle to root out the old America of family, faith and flag, and re-create society in a pagan image.' (Medved, p. 23.)

A Dark View of the World

Medved noted that, "The most significant shapers of the entertainment industry, in their quest for artistic legitimacy, have adopted a view of the world that is surprisingly dark, even desperate, highlighting elements of chaos, cruelty, and random violence while emphasizing every possible failing of America and its institutions." (Medved, p. 29.)

The War Against Religion

In a section entitled, "The Attack on Religion," Medved notes:

"Universal's woeful experience with *The Last Temptation of Christ* typifies the pervasive and self-destructive hostility to religion that has taken root in Hollywood.

"In the ongoing war on traditional values, the assault on organized faith represents the front to which the entertainment industry has most clearly committed itself. On no other issue do the perspectives of the show business elite and those of the public at large differ more dramatically. Time and again, the producers who shape our movies, television, and popular music have gone out of their way to affront the religious sensibilities of ordinary Americans

"To maintain a sense of perspective, it is important to remember that this represents a relatively recent development in Hollywood history. For the first fifty years of its existence, the movie capital produced numerous entertainments that celebrated – or at least respected – the major religious traditions. Biblical blockbusters like *Samson and Delilah*, *David and Bathsheba*, *Quo Vadis?*, *The Robe*, *The Ten Commandments*, and *Ben Hur* were specifically designed to appeal to the predilections of the pious, and each of these films became the nation's top box-office hit in the year of its release. Such sandals-and-sandstorm epics may not stand today as examples of deathless works of art, but in their day they won a great deal of critical acclaim at the same time they achieved consistent commercial success. *Ben Hur*, for instance, set a record by sweeping up eleven Academy Awards in 1959 – a total that still remains unsurpassed. (Medved, pp. 50-51.)

An Attack on People Who Believe in Religion

In a chapter entitled, "Forgetting the Faithful," Medved stated:

"The apparent eagerness of some of Hollywood's most powerful personalities to belittle religious believers is a puzzling predilection for people whose professional survival depends entirely on pleasing the public; it stems from a fundamental failure to recognize the heartfelt commitment to traditional faith that characterizes a significant – and growing – percentage of the American population.

In 1988 pollster George Gallup delivered a speech concerning the evolution of public opinion in which he predicted that the 1990s would become known as the 'Decade of the People's Religion.' In the course of his address, Gallup reported that his latest surveys showed that 'levels of religious belief and practice in the U.S. are extraordinarily high. For example, the large majority of Americans believe in a personal God . . . believe their prayers are answered and say that religion is either 'very or 'fairly' important in their lives. In fact, only 4 percent of Americans are totally 'nonreligious' – that is, say religion is not at all important in their lives, do not belong to a church or attend a church or attend a church and have no religious affiliation.'

"These figures contrast dramatically with the results of a 1983 *Public Opinion* survey of 104 of the most influential leaders of TV's creative community that showed a full '45 percent who claim no religious affiliation whatsoever' and an astounding '93 percent who say they seldom or never attend religious services.' In an October 1991 interview with a Catholic newspaper in New York, veteran television producer John Prizer conceded, 'The lack of religious commitment on the part of people in Hollywood is quite astonishing. I can't think of a director or actor or writer under forty-five who goes to church or synagogue.'

Hollywood Is Blind to Organized Faith

"This appallingly unrepresentative personal perspective has helped to blind Hollywood's leaders to the intense involvement of most Americans with organized faith. As *Newsweek* magazine reported in January 1992: 'This week, if you believe at all in opinion surveys, more of us will pray than will go to work, or exercise, or have sexual relations.' According to *Newsweek's* research, 78 percent of Americans pray at least once a week, and more than 40 percent attend worship services on a weekly basis. This means that the number of people who go to church in a given week is more than five times larger than the number who go to the movies.

Depth of Religious Feeling Among American People

"In December 1991, a *Time/CNN* poll offered similarly striking figures concerning the depth of religious feeling on the part of the American people: 78 percent support prayer in the public schools, 89 percent back a moment of silence

at the start of the school day, and 63 percent say they could not vote for a presidential candidate who didn't believe in God. By a ratio of five to one (55 percent to 11 percent), the public believes that there is 'too little' religious influence in America rather than 'too much.'

"Perhaps most astonishing of all, a poll reported in *U.S. News and World Report* (December 1991) asked American voters to describe 'their greatest objective in life'; fully 56 percent listed 'a closer relationship to God' as their top personal priority.

"In the light of such figures, Hollywood's persistent hostility to religious values is not just peculiar, it is positively pathological. Rather than readjusting their view of reality in order to come to terms with the religious revival in America – and the widely reported resurgence in church attendance and affiliation – most people in the movie capital simply choose to ignore what the surveys tell them....

Hostility to Religion

"The distortions and insults about organized religion will continue unabated as long as our popular culture continues its overall campaign against judgment and values. A war against standards leads logically and inevitably to hostility to religion because it is religious faith that provides the ultimate basis for all standards.

"The God of the Bible is not a moral relativist, and He is most definitely judgmental. The very nature of the Judeo-Christian God is a Lord who makes distinctions. In the Book of Genesis, God creates the world by dividing the light from the darkness, dividing the waters above from the waters beneath, dividing the water from the dry land, and so on. In traditional Jewish homes, when we say farewell to the Sabbath every Saturday night, we divide the holy day just passed from the more ordinary week ahead, reciting a blessing that praises God for separating various aspects of reality, one from the other – for making distinctions. To the extent that we as human beings feel that we are created in God's image, and that we are fundamentally different from the animals, we make distinctions, too – and we have standards. (Medved, pp. 70-71, 89.)

The War Against Family Values

In "The Assault on the Family," Medved notes:

"...The music industry shamelessly promotes promiscuity, motion pictures focus relentlessly on family dysfunction and divorce, while television programs broadcast the deadly message that kids know better than their doltish and irrelevant parents.

"In other words, the contrast between private contentment and public pessimism that shows up in major polls mirrors the huge chasm between our own view of the world and Hollywood's – between the relatively happy real-life experience of most American families and the grim and poisonous visions that regularly emerge from the entertainment industry. Those antifamily images have become so- deeply ingrained in our national consciousness that few Americans can summon the courage or the strength to dismiss them as the destructive distortions that they are.

Popular Music: As Nasty as It Wants to Be

"Perhaps the most damaging of all those distortions involves the glorification of sexual adventurism and the focus on physical pleasure as an end in itself.

"This is a theme that is exploited by every element in the popular culture, but it is nowhere more powerfully expressed than in the music business – a mighty industry of staggering global impact that devotes nearly all of its energies to the endless celebration of the raw power of lust. (Medved, p. 96.)

Promotion of Alternative Lifestyles in Hollywood

In a chapter entitled, "Encouraging Illegitimacy," Medved pointed out,

"In addition to its increasingly unflattering portrayal of traditional families, the entertainment industry actively promotes alternative arrangements for raising children. In particular, Hollywood disregards the convention notion that kids fare best in a situation where they live together with a father and a mother who happen to be married to each other.

Challenging Family Pieties

"For many of the leaders of the show business community, promoting single parenthood and out-of-wedlock birth is a matter of conviction, not just convenience. An impressive array of the most prominent entertainers proudly bear children without benefit of matrimony. Goldie Hawn and Kurt Russell, Woody Allen and Mia Farrow, Susan Sarandon and Tim Robbins, Jessica Lange and Sam Shepard, Jessica Lange and Mikhail Baryshnikov, Sean Penn and Robin Wright, Farrah Fawcett and Ryan O'Neal, Jack Nicholson and Rebecca Broussard, Eddie Murphy, Glenn Close, Christopher Reeve, Mick Jagger, Al Pacino, Rod Stewart, Ed Asner, Sting, William Hurt, Ice Cube, and many others all seem to make a deliberate point of avoiding marriage, even after they bring children into the world.

Promotion of Foul Language and Vulgarity

The language of today's film is below the gutter. In a chapter entitled, "The Infatuation with Foul Language," Medved noted:

"For many members of America's mass audience, a low-frequency tone is hardly necessary to produce gut-churning results: they are already ill over the foul language that pervades our popular culture.

"It may seem anticlimactic to discuss the excessive use of four-letter words after covering the current fascination with vomit and urine, roaches and maggots. Audiences are so energetically assaulted with every manner of maiming and mutilation, every imaginable approach to sexual exploitation and debasement of the human spirit, that one might well expect them to overlook the nasty language that usually accompanies the ugliness.

"The public, however, remains surprisingly sensitive to the verbal obscenities that have become such a commonplace aspect of our movies, popular music, and even prime-time TV. All public opinion surveys measuring attitudes toward the media report a remarkable unanimity behind the idea that Hollywood should clean up the language in the products it offers to the people.

"A well-publicized 1989 poll by Associated Press/Media General asked its respondents: 'Overall, do most movies that come out nowadays have too much profanity in them, or not?' An astonishing 80 percent cited 'too much' profanity; *not one* of the 1,084 survey participants endorsed the idea that movies today contained 'not enough' harsh language....

Promotion of Violence

In a chapter entitled, "The Addition to Violence," Medved explains that:

"While a fascination with foul language may be the most obvious example of the popular culture's emphasis on ugliness, the addiction to graphic violence is surely the most destructive. While the ubiquitous inclusion of dirty words disturbs millions of people as unnecessary and insulting, the addiction to brutality encourages far more serious sorts of antisocial behavior, with devastating consequences for our civilization.

"A wealth of scientific studies in recent years have removed most of the remaining doubts about the link between make believe brutality and real world aggression. 'The Consensus among social scientists is that very definitely there's a casual connection between exposure to violence in the media and violent behavior,' says Daniel Linz, Professor of Psychology at the University of California, Santa Barbara, who has spent much of his career researching the subject. At New York's Syracuse University, Professor of Communications George Comstock reached identical conclusions by going back more than thirty years to analyze the 190 most important research projects that attempted to gauge the impact of television violence on children and young adults. Summarizing his conclusions in 1991, Comstock found 'a very solid relationship between viewing antisocial portrayals or violent episodes and behaving antisocially. It holds up regardless of sex.'

"Two psychologists at the University of Illinois made the same observations after a landmark study of one set of 400 children over the course of more than twenty years. Drs. L. Rowell Huesman and Leonard Eron found that those kids who watched significant amounts of TV violence at age eight were consistently more likely to commit violent crimes or engage in child or spouse abuse at age thirty. When publishing their findings in 1984, they wrote that 'we believe...that heavy exposure to televised violence is one of the causes of aggressive behavior, crime and violence in society. Television violence affects youngsters of all ages, of both genders, at all socioeconomic levels and all levels of intelligence.... It cannot be denied or explained away.' (Medved., p. 183-184.)

Hostility Toward Heroes

The discovery, settlement and development of America is a story of countless heroes and heroines. Yet, Hollywood ignores and degrades the true heroes of our nation, while creating heroes out of unseemly characters. In a chapter entitled, "Hostility to Heroes," Medved explained:

"Hollywood's ongoing obsession with ugliness manifests itself not only in its urge to offend, its infatuation with foul language, and its addiction to violence, but in a surprising and self-destructive hostility to heroes.

"This development marks a drastic and devastating change of focus for the popular culture. In years past, in the heyday of Gary Cooper and Greta Garbo, Jimmy Stewart and Katharine Hepburn, the movie business drew considerable criticism for manufacturing personalities who were larger than life, impossibly noble and appealing individuals who could never exist in the real world. Today, the industry consistently comes up with characters who are smaller than life – less decent, less intelligent, and less likeable than our own friends and neighbors. Instead of creating elegant and exemplary figures of fantasy, Hollywood increasingly invests its most serious artistic aspirations on loathsome losers, disturbed and irresponsible misfits who give us little to care about and nothing to admire.

"As noted in an earlier chapter of this book, the actors nominated for Oscars for 1991 provided an odd illustration of this trend, reflecting those characterizations that the Academy considered most worthy of its highest honor. Of the five men nominated for Best Actor, three played deranged and sadistic killers (Anthony Hopkins in *Silence of the Lambs*, Warren Beatty in *Bugsy*, and Robert De Niro in *Cape Fear*); one played a homeless and delusional psychotic (Robin Williams in *The Fisher King*); and one played a rejected, depressed, unemployed, and ultimately adulterous husband (Nick Nolte in *The Prince of Tides*).

"The nominations for Best Supporting Actor hardly highlighted a more lovable crew: Ben Kingsley and Harvey Keitel played ruthless gangsters (both in *Bugsy*); Tommy Lee Jones portrayed a decadent and devious conspirator in the Kennedy

assassination (in *JFK*); and Michael Lerner brought to life a crude, insensitive, and power-mad studio boss from Hollywood's Golden Age (in *Barton Fink*). Of the ten actors considered for the entertainment world's most esteemed awards, in both the Best Actor and Best Supporting Actor categories, only one (Jack Palance in *city Slickers*) portrayed a character who bore even a passing resemblance to a traditional Hollywood hero. In fact, his performance as a wise and weather-beaten trail boss may well have appealed to Academy voters (and won him the award) precisely because it amounted to a nostalgic and self-conscious nod to the glories of Hollywood's past.

"On Oscar night, two militant gay rights organizations angrily protested the Academy's favorable attention to *JFK* and *Silence of the Lambs* – both of which featured highly unflattering portrayals of homosexual characters. No fair-minded person could disagree with their contention that some of the year's most eagerly applauded pictures featured insulting images of gay people, but those same movies also included demeaning depictions of heterosexuals, of women and men, of young and old, and of every manner of humanity. Hollywood degrades not only a minority sexual orientation; it degrades the human spirit." (Medved, pp. 201-202.)

An Attack Upon America and Patriotism

In a section entitled, "Bashing America," Medved proclaims that according to the Hollywood elite, "We have become the enemy."

"In one sense, the current hostility to heroes reflects Hollywood's underlying attitude toward American civilization and all its works. According to its defenders, the entertainment industry focuses on violent, corrupt, and demented characters only because it is trying to provide an honest view of a violent, corrupt, and demented society.

"Leading members of the entertainment establishment have become remarkably candid in expressing their bitter feelings toward their native land. "The United States is a land that has raped every area of the world," declared *Thelma and Louise* star Susan Sarandon in an interview in May 1991. In the same month, Sean Penn spoke to a press conference at the Cannes Film Festival about the rage expressed in his bloody, brooding directorial debut, *Indian Runner*: "I don't think it scratches the surface of the rage that is felt, if not acted upon, by most of the people in the country where I live," the outspoken star solemnly declared. "I was brought up in a country that relished fear-based religion, corrupt government, and an entire white population living on stolen property that they murdered for and that is passed on from generation to generation."

"To-time Oscar-winner Oliver Stone expressed similar sentiments when accepting the 'Torch of Liberty Award' from the American Civil Liberties Union in September 1987. 'Our own country has become a military-industrial monolith dedicated to the Cold War, in many ways as rigid and as corrupt at the top as our

rivals the Soviets,' he proclaimed, shortly before the total collapse of Communism in Eastern Europe. 'We have become the enemy – with a security state now second to none. Today we have come to live in total hatred, fear, and the desire to destroy. Bravo. Fear and conformity have triumphed.'

"In Stone's view, 'this Darth Vadian empire' of the United States must pay for its many sins in the near future. 'I think America has to bleed,' he told an interviewer for *American Film* in 1987. 'I think the corpses have to pile up. I think American boys have to die again. Let the mothers weep and mourn.'

"While Stone expressed his public hopes for high casualties, other Hollywood heavyweights devised nonverbal means to express their contempt for patriotic conventions. In 1990 television star Roseanne Barr raised a considerable public furor (and risked her show's popularity) with her shrieking, spitting, crotch-grabbing rendition of the 'Star-Spangled Banner' prior to a San Diego Padres baseball game.

"In the rap music industry the antipatriotic imagery is even more explicit. Ice Cube's best-selling 1991 *Death Certificate* album boasted a cover photo of a flag-draped corpse on a morgue slab with the soles of its barefeet facing the camera; one big toe is prominently tagged with the label 'Uncle Sam.' Meanwhile, the popular, twenty-three-year-old rapper Paris enjoyed considerable success with his album *The Devil Made Me Do It*, released along with a nightmarish video that shows a jovial, top-hatted Uncle Sam suddenly transformed into a raging, bloodthirsty Satan. The controversial rap star Sister Souljah summed up the judgment of many in the entertainment industry with her 1991 single 'The Final Solution': 'We should've read the books and understood/That America is no damn good.'" (Medved, pp. 216-217.)

Promotion of Cultural Anarchy

In a chapter entitled, "Denial Behavior," Medved pointed out that,

"In the wake of the horrifying riots in Los Angeles, thoughtful observers of every political persuasion began taking a fresh look at the connection between media messages and antisocial behavior.

"'Now we live in a cultural nuthouse, a mad world of blood, torture and murder that surrounds us in the movies and follows us home when we turn on TV 'entertainment,' editorialized A.M. Rosenthal in *The New York Times* (May 5, 1992). '... Violence made fashionable in the cause of a buck is unworthy of people of talent. Aren't those who do that becoming ashamed of themselves? Haven't they discovered that ketchup can become blood?'

"In their most recent responses to such charges, leaders of the entertainment industry frankly acknowledge the appalling elements in the 'cultural nuthouse' they

have built, but they refuse to accept the idea that this ominous structure has significantly influenced society.

"Instead of defending the content of their work, they simply deny its impact....

Hollywood Claims Motion Picture Violence Doesn't Affect People

"The entertainment establishment responds to these concerns by supplementing its standard rhetorical tricks with a few laughably bald-faced lies. On May 18, 1992, Barbara Dixon, Jack Valenti's colleague as spokesperson for the Motion Picture Association of America, told the *Los Angeles Times*: 'We have dealt with this issue for a long time and have looked at a number of studies. According to the First Amendment lawyers who have handled the issue for us, none of [the studies] say that motion picture violence affects the behavior of people.'

"If Ms. Dixon has accurately summarized the report she received from her lawyers, then she should immediately seek more competent legal representation: in fact, more than three thousand research projects and scientific studies between 1960 and 1992 have confirmed the connection between a steady diet of violent entertainment and aggressive and antisocial behavior.

"In a comprehensive 1982 report, published along with five thick volumes of social science surveys, the Surgeon General of the United States concluded that 'there is a clear consensus among most researchers that television violence leads to aggressive behavior.' Or, as the American Psychological Association declared in a 1991 resolution following a five-year task-force investigation: 'The Conclusion drawn on the basis of twenty-five years of research...is that viewing televised violence may lead to increases in aggressive attitudes, values, and behavior, particularly in children.'

"Scientific and academic support for this conclusion has increased year after year, with official statements linking media messages and antisocial conduct from the American Academy of Pediatrics, the American Medical Association, the National Institute of Mental Health, the National Commission on the Causes and Prevention of Violence, the U.S. Public Health Service, the National Parent-Teacher Association, the U.S. Attorney General's Task Force on Family Violence, and the National Education Association. Professor Aletha Huston of the University of Kansas recently declared: 'Virtually all independent scholars agree. We keep pumping children with the message that violence is the way to solve their problems – and some of it takes hold.' (Medved, pp. 240,243-244.)

Hollywood Conceals Attendance Figures

In a chapter entitled, "What Went Wrong," Medved reveals what he calls, "Hollywood's Dirty Little Secret." He noted that:

"Any serious effort to promote more positive values in the popular culture must begin with an exploration of the origins of the current crisis.

"At the heart of the problem is the alienation of the audience – the tendency of increasing numbers of potential patrons to view the products of Hollywood with suspicion and resentment. When – and how – did the entertainment elite begin to lose touch with the American mainstream?

"Of course, some of the industry's defenders object to the very premise of the question. They insist that there is no long-term crisis, and they recite some reassuring box-office figures to prove their point. While everyone acknowledges that total revenues have dipped in the last three years, industry advocates remind us that 1989 represented a peak period for the motion picture business. During those twelve months – described with much fanfare in the trade press as 'the best year in Hollywood history' – American films set an all-time record by earning \$5,033,400,000 at the domestic box office.

"In view of this impressive performance, the entertainment oracles declare that their business is basically sound and faces no deep-seated difficulties in connecting with the mass of American moviegoers.

"Unfortunately, this argument rests on faulty logic – and faulty figures.

"In fact, I am increasingly convinced that industry leaders deliberately emphasize the numbers on 'box office grosses' in order to mislead the public (and themselves) and to disguise the depth of their dilemma.

"It is Hollywood's dirty little secret that these highly touted figures tell us nothing about the actual size of the movie audience; what they reflect most significantly is the incessant and excessive rise in ticket prices.

"Those prices have shot up nearly 70 percent since 1982 – nearly twice the rate of inflation in the overall consumer price index. The price increases hide the ongoing decline in the size of the movie audience, allowing Hollywood to report higher gross receipts even though their movies draw dramatically fewer people.

"For instance, Hollywood's much-ballyhooed 'Golden Year' of 1989 actually attracted a *smaller* audience than did the unheralded seasons of 1984, 1983, or 1982.

"The only numbers that accurately reflect the industry's ability to connect with the general public are figures on 'admissions' – the total number of American moviegoers who actually go to the theaters and pay to see Hollywood's product. These statistics – available upon request from the Motion Picture Association of America – tell a dismal tale of an industry that has needlessly and stupidly sacrificed the majority of its available audience.

Missing Moviegoers

"A quick review of the last few decades of Hollywood history makes it surprisingly easy to identify when – and how – the entertainment establishment lost those missing moviegoers.

"The advent of television delivered the first blow.

"Between the years 1948 and 1953, as the tube entered more and more American homes, motion picture attendance collapsed, dropping from a weekly average of 90 million down to a level of 46 million.

"At that point, however, the situation stabilized – much to the relief of the major studios. With television already well-established across the country in 1953, the overall size of the movie audience showed remarkably little variation for the next twelve years, remaining fixed in the 40 million – 49 million weekly range.

"Then, after 1965, Hollywood faced another turning point – and the levels of motion picture attendance showed another sudden and disastrous decline. In terms of the percentage of the audience they estranged, the developments of the late 1960s proved even more cataclysmic than the introduction of television.

"The numbers reveal the scope of the catastrophe: weekly attendance figures plummeted from 44 million in 1965 to a pathetic 17.5 million in 1969. In the brief span of four years, some unanticipated and still unidentified hydrogen bomb exploded in Hollywood – wiping out more than 60 percent of the previously stable audience.

"Unfortunately, the impact of this explosion has proven permanent: Hollywood has never recovered from the debacle of the late '60s. Since 1965, industry-wide weekly attendance never again rose above the level of 23 million (which it achieved in 1984); by 1991 it had slipped again to an anemic 18.9 million. (Medved, pp. 275-277.)

Study Reveals Depravity in Today's Movies

Hollywood vs. America is an extremely valuable examination of the elite world view that controls the entire entertainment industry in America. Not only are the R-rated and PG-13 movies growing worse and worse, many G-rated movies have dramatically changed too. A study by the Entertainment Research Group in 1992 revealed that parents need to monitor even PG-rated movies.

Percent of Movies with:	PG	PG-13	R
F-word	6%	39%	93%

A-word	58%	66%	83%	
S-word	46%	73%	94%	
"S.O.B."	23%	48%	56%	
"Hell"	71%	76%	79%	
Names of deity as profanity		79%	77%	89%
Slang for urination	21%	21%	30%	
Reference to male genitals		21%	48%	62%
Graphic deaths	13%	39%	54%	
Incidents with graphic blood		13%	29%	49%
Battery	60%	55%	73%	
Use of alcohol	44%	37%	49%	

(Source: Entertainment Research Report. 1992, Entertainment Research Group, Inc.)

Moral and Cultural Relativism

In 1993, Zbigniew Brzezinski, former National Security Advisor to President Jimmy Carter, wrote a remarkably insightful book entitled, *Out of Control: Global Turmoil on the Eve of the Twenty-First Century*. While the book deals primarily with international affairs, Brzezinski's insight into the impact of Hollywood on America and the word is very revealing. He outlines that there is rapidly developing a worldwide network of telephones, televisions and faxes throughout the world. There are an estimated 2.1 billion radios and 1 billion televisions in the world today. Brzezinski calls moral and cultural relativism by a new name – "permissive cornucopia." He stated:

"...In a cornucopian society all wants can be met, and met on a highly individualized basis. Since all desires can be satisfied, all are thus also equally good. It follows that neither coercion nor self-denial is necessary. But a society in which self-gratification is the norm is also a society in which there are no longer any criteria for making moral judgments. One feels entitled to have what one wants, whether or not one is worthy. Thus, moral judgements become dispensable. There is no need to differentiate between 'right' and 'wrong,' Instead, for pragmatic reasons of social order, the critical distinction is between what is 'legal' and 'illegal'; thus legal procedure, especially the court system, substitutes for morality and for the church as the principal definer of that morality. Religion as the

internalized guide to individual conduct is thus replaced by the legal system, which defines the external limits of the impermissible but not of the immoral.

Procedural Morality

"One can call the foregoing 'procedural morality,' based on external rules guiding conduct and social interaction. It differs fundamentally from a morality that is internalized, personal, and inclined to make distinctions between 'right' and 'wrong.' Moreover, procedural morality – if it stands by itself – tends to create a condition in which more than just a few are tempted to test pragmatically the limits of the permissible – 'to try to get away with it' – because no absolute inner moral restraint is operational. It becomes largely a matter of judging how effective, or ineffective, is the procedural system of restraint, and then of acting accordingly. Some tendencies in contemporary America seem to point in that direction. The several celebrated accounts of Wall Street financial scandals, or the emergence of an organized drug subculture, or widespread street crime provide good illustrations of the social consequences of this proclivity. Self-restraint gives way to violence and self-control is replaced by corruption.

An Increasingly Permissive Culture

"Under ideal circumstances, in a law-respecting democracy, procedural morality and inner morality would be mutually reinforcing. The delicate balance between them would rest on the social acceptance of the sovereignty of judicial procedures and on the state's acceptance of the existential desirability of social institutions dedicated to the reinforcement of internal, personal morality. In the past, that latter role was largely played by organized religion. But in modern society, both politics and economics conspire to create a culture inimical to the preservation of an important social domain reserved for the religious. An increasingly permissive culture, exploiting the principle of the separation of church and state, squeezes out the religious factor but without substituting for it any secular 'categorical imperatives,' thereby transforming the inner moral code into a vacuum.

A Moral Vacuum

"That moral vacuum defines the essential meaning of the notion of spiritual emptiness – an emptiness which appears to be increasingly pervasive in much of what is called Western civilization. It is a striking paradox that the greatest victory for the proposition that 'God is dead' has occurred not in the Marxist-dominated states, which politically propagated atheism, but in Western liberal democratic societies, which have culturally nurtured moral apathy. In the latter, the fact is that religion has ceased to be a major social force. But this condition arose not because officially propagated atheism had won the day over religion, but because of the corrosive effects of cultural indifference to anything but the immediately and materially satisfying dimensions of life.

A Lack of Civic Responsibility

"Two other issues of major importance are pertinent here: the definition of freedom and the definition of the good life. The first pertains to the meaning of citizenship and the second to the essence of the human being. In a society that culturally emphasizes the maximization of individual satisfactions and the minimization of moral restraints, civic freedom tends to be elevated into a self-validating absolute. In other words, civic freedom is divorced from a notion of civic responsibility. Traditionally, since both the French and the American revolutions, the notion of freedom was defined in the context of citizenship: that is, a definition of individual rights within a sociopolitical setting which involved also some responsibilities to that setting. However, for these responsibilities to be voluntarily shouldered genuine motivation is required, which in turn calls for an inner spirit that prompts the willingness to serve, to sacrifice, and to exercise self-restraint. Patriotic citizenship was the framework for the definition of civic freedom within a democratic society.

A New Definition of Freedom

"This definition today is in jeopardy. Increasingly, freedom is defined as the accumulation of rights and entitlements as well as license for any form of self-expression and gratification. The notion of self-imposed or socially expected service to society has become unfashionable. Thus, in effect, personal freedom becomes the absence of restraint except in cases of legally defined threats to someone else's physical or material well-being.

Television Promotes Moral Corruption and Cultural Decline

"The gradual redefinition of freedom, away from the notion of responsible civic freedom and toward the notion of licentious personal liberty, both contributes to and is reinforced by ongoing trends in mass media. On the whole, the values conveyed by the media repeatedly manifest what justifiably might be called moral corruption and cultural decadence. Television is a particularly serious offender in this respect. Today, for much of the world – and especially for the young – television is the most important instrument both for socialization and education. In that respect, it is rapidly replacing the roles traditionally played by the family, by the church, by the school.

Television Conditions the Viewer

"Television gives the young viewer a first glimpse of the outside world. It first defines – and does so compellingly, by combining the visual and the audio impact – the meaning of the good life. It sets the standards of what is to be considered achievement, fulfillment, good taste, and proper conduct. It conditions desires, defines aspirations and expectations, and draws the line between acceptable and unacceptable behavior. With audiences around the world increasingly glued to

television sets, there is nothing comparable, either in the era of enforced religious orthodoxy or even at the high point of totalitarian indoctrination, to the cultural and philosophical conditioning that television exercises on the viewers.

Television Shapes Perceptions and Values

"It is a staggering fact that, according to data from Nielsen Media Services, an American housewife spends twenty-eight hours and thirteen minutes per week – or about one-quarter of her waking hours! – watching television, and that American teenagers do so for about twenty hours a week. Even more appalling are the data accumulated by the Educational Testing Service, which indicate that the proportion of children aged thirteen who watch television for five hours or more per day – or upwards of thirty-five hours per week! – is over 20 percent in America, and somewhere in the range of over 10 percent for both Western and some developing countries. Even the lower percentiles underline the importance of television in shaping perceptions and values.

Television Is Promoting the Sensual, Sexual and Sensational

"The content of American and West European television has been under much discussion. Not all of it is undesirable; some of it occasionally is even good. But Gresham's Law applies not only to good and bad money; it applies also to programming that is exclusively dependent on advertising and audience appeal. The sad fact is that television producers who are cultural pornographers have in effect a competitive advantage over those who are not. The net result is that Western television has become progressively more and more inclined to the sensual, sexual, and sensational. Even a single day's test of the content of the 'sit-coms' that dominate daily viewing and of much of the evening entertainment, not to speak of the advertisements themselves, conveys the foregoing with intense impact.

Television Encourages Sexual Promiscuity

"Moreover, to the extent that any values can be extrapolated from television programming, they clearly extol self-gratification, they normalize intense violence and brutality, they encourage sexual promiscuity through example and stimulated peer pressures (advertisements for condoms addressed to American teenagers and children describe potential customers as sexually 'active' – with the obvious negative inference that the others are 'inactive') and they pander to the worst public instincts. The result is loss of control over social behavior.

American Television Is Promoting a Distorted Vision of America

"This indictment is especially applicable to the widely viewed global exports of American television and of the American film industry. 'Dallas' and 'Dynasty' have been shown in more than one hundred countries, and the image that they present of

American values is not likely to reinforce America's global standing. On the contrary, while the distorted picture of American wealth may be envied, the overriding vulgarity and spiritual emptiness which these images of America project reinforce skepticism that America has a deeper message to offer to the contemporary world. American movies in recent years have also come to be dominated by brutish violence and physical and sexual savagery, with growing box-office rewards for each surpassing dose of abominations. It is no exaggeration to say that Hollywood movie and TV producers have become cultural subverters who – cynically exploiting the shield offered by the First Amendment – have been propagating a self-destructive social ethic.... (Zbigniew Brzezinski, *Out of Control: Global Turmoil on the Eve of the 21st Century*, New York, MacMillan Publishing Co., 1993, pp. 67-72.)

Hollywood Is Promoting Cultural Relativism around the Globe

America is being guided by Hollywood toward cultural disintegration. Hollywood is promoting 'moral corruption' and 'cultural decadence.' (Brzezinski, p. 69.) Hollywood has become "cultural subverters" of not only America, but the world because they have been "propagating a self-destructive social ethic." (Brzezinski, pp. 71-72.)

According to Brzezinski:

"...No nation comes even remotely close to the United States in the dissemination of television programming abroad. (In recent years, the UK and France have been in second place, but though each country traditionally has had worldwide cultural aspirations, their respective sales have amounted to less than 15 percent of the total American export hours.) Every continent is thereby affected (some would say, infected) by the images and values which American TV projects. This condition has prompted frequent foreign charges that American 'cultural imperialism' has become a threat to indigenous cultural diversity." (Brzezinski, p. 96.)

Hollywood Is Promoting Moral Corruption Throughout the World

The former National Security Advisor lists twenty dilemmas that he feels need to be corrected to avoid global turmoil in the 21st Century in America. Number 16 is "The massive propagation of moral corruption by the visual media – which under the guise of entertainment is engaged in the de facto advocacy of sex and violence as the means for attracting viewership and which in effect propagates instant self-gratification." (Brzezinski, p. 106.)

Zbigniew Brzezinski feels that "the biggest danger" in the days ahead "is posed by the collision between the intractability of America's social problems with the values that increasingly dominate America's culture and spirit." (Brzezinski, p. 111.) He states that:

"The reality must be faced that a major improvement in this regard is unlikely to be forthcoming without a significant shift in the predominant values of American society. With the fading of religion and of patriotism, the 'Horatio Alger' philosophy has become the dominant ethic. Its downside is contempt for failure and the conviction that poverty is somehow self-inflicted. Persistent racism – which has not been eradicated from American society – reinforces the prevailing moral complacency regarding the underprivileged. Moreover, the current emphasis – especially by the dominant purveyors of mass culture – on the worship of material wealth, on consumption, and on the propagation of self-indulgence as the definition of the good life creates blinders to the key social dilemmas, inhibiting a response that could over time generate genuinely effective remedial action.

Television Is Playing a Negative Role in Shaping Values

"The particularly negative role in shaping American values played by television has already been noted earlier. It is this medium that has become predominant in shaping the national culture and its basic beliefs. As James B. Twitchell observes, in his incisive *Carnival Culture – The Trashing of Taste in America* (1992), American TV has become 'a medium whose input is so profound and so resolutely banal that it has almost single-handedly removed vulgarity from modern culture by making it the norm.' The result is a mass culture, driven by profiteers who exploit the hunger for vulgarity, pornography, and even barbarism. /Such supremacy of decadence and hedonism in a culture cannot help but have a demoralizing effect on the values of society, undermining and eroding once more deeply felt beliefs.

Television Is Sensationalizing Reality

"TV has had a particularly important effect in disrupting generational continuity in the transfer of traditions and values. TV entertainment – and even news – have gone overboard in sensationalizing reality as novelty detached from any moral moorings and in presenting material or sexual self-gratification as the normal, even admirable conduct. It is striking to observe the degree to which the most popular programs designed for young audiences – as well as the most widely viewed 'talk' shows – concentrate on decadence and debauchery while applauding the rejection of traditional authority. In words that some might ascribe to a fundamentalist preacher but in fact appeared in a survey in *The Economist* (March 28, 1992), the most-viewed American TV programs for teenagers presented their parents typically 'as emotionally erratic, divorced, white-collar criminals, hooked on alcohol or cocaine or New Age crystals.' This hardly enhances parental ability to transmit values to children.

The Mass Media Is Changing the Family Unit

"The marked decline of the nuclear family as the basic social unit aggravates the cultural-philosophical malaise of contemporary America. That decline is the direct product of changing social values, as reflected in and propagated by the

mass media. Family implies structure, responsibility, and restraint. The very requirements of good family life work against the grain of uninhibited hedonism, for they impose the obligations of sacrifice, loyalty, and trust. In contrast, the weakening of family ties makes the individual more susceptible to fads, fashions, and thus also to an increasingly fluid inner faith which, before long, becomes transformed into a self-serving justification for egocentrism. All of this is inimical to the generation of enduring principles, not to speak of some socially shared criteria of self-denial.

Relativism and Hedonism

"America clearly needs a period of philosophical introspection and of cultural self-critique. It must come to grips with the realization that a relativist hedonism as the basic guide to life offers no firm social moorings, that a community which partakes of no shared absolute certainties but which instead puts a premium on individual self-satisfaction is a community threatened by dissolution. (Brzezinski., pp. 112-113.)

Part XI International Institutions

35. League of Nations & the United Nations

On September 17, 1796, President George Washington issued his famous Farewell Address to the nation. In his remarks the President admonished the people to preserve its free institutions for posterity. He firmly believed that those entrusted to serve the people should confine themselves to the delegated duties of their office. President Washington then gave a firm warning to future generations to avoid entangling alliances. He foresaw that the treaty-making power of the Constitution could be used to undermine our national sovereignty and involve America in world affairs that were contrary to the true role of a limited government. He declared:

"Against the insidious wiles of foreign influence, I conjure you to believe me, fellow-citizens, the jealousy of a free people ought to be *constantly* awake, since history and experience prove that foreign influence is one of the most baneful foes of Republican Government. – But that jealousy to be useful must be impartial; else it becomes the instrument of the very influence to be avoided, instead of a defense against it. – Excessive partiality for one foreign nation and excessive dislike of another, cause those whom they actuate to see danger only on one side, and serve to veil and even second the arts of influence on the other. – Real Patriots, who may resist the intrigues of the favorite, are liable to become suspected and odious: while its tools and dupes usurp the applause and confidence of the people, to surrender their interests. –

Steer Clear of Permanent Alliances

"The great rule of conduct for us, in regard to foreign Nations, is, in extending our commercial relations, to have with them as little *Political* connection as possible. – So far as we have already formed engagements, let them be fulfilled with perfect good faith. – Here let us stop. –

"Europe has a set of primary interests, which to us have none, or a very remote relation. – Hence she must be engaged in frequent controversies, the causes of which are essentially foreign to our concerns. – Hence therefore it must be unwise in us to implicate ourselves, by artificial ties in the ordinary vicissitudes of her politics, or the ordinary combinations and collisions of her friendships, or enmities.

"...Why, by interweaving our destiny with that of any part of Europe, entangle our peace and prosperity, in the toils of European ambition, rivalry, interest, humor, or caprice? –

"Tis our true policy to steer clear of permanent alliances, with any portion of the foreign world" (David Stedman, *Our Ageless Constitution*, Asheboro, North Carolina: W. David Stedman Associates, 1987, p. 202.)

A New Era of Presidential Power

President Washington's advice was basically followed for over 100 years, however, with the election of President Woodrow Wilson in 1912, a new era of presidential politics began. Wilson sought to expand the executive branch and the national government through the use of the war power provisions of Congress and the treaty making clauses of the Constitution.

World War I began on June 28, 1914 and the U.S. entered the European war on April 6, 1917. It ended on November 11, 1918. After the end of World War I, President Wilson moved to persuade the U.S. Senate to ratify the Treaty of Versailles – the treaty signed on June 28, 1919 contained a provision for the creation of an international organization called the League of Nations. President Wilson negotiated this treaty with England, France and Italy. Instead of avoiding entangling alliances as President George Washington admonished, President Wilson and the U.S. State Department did everything possible to move America into this new international organization. The U.S. Senate rejected the Treaty of Versailles in March of 1920.

Senator Henry Cabot Lodge, Chairman of the Foreign Relations Committee, led the opposition against U.S. involvement in European affairs. In a masterful speech on February 28, 1919 Senator Lodge outlined the main objections to the Treaty of Versailles and the League of Nations:

Major Objections to the League of Nations

"Mr. President, all people, men and women alike, who are capable of connected though abhor war and desire nothing so much as to make secure the future peace of the world. Everybody hates war. Everyone longs to make it impossible. We ought to lay aside once and for all the unfounded and rally evil suggestion that because men may differ as to the best method of security the world's peace in the future, anyone is against permanent peace, if it can be obtained, among all the nations of mankind. Because one man goes to the Capitol in Washington by one street and another man by a different street it does not follow that they are not both going to the Capitol. We all earnestly desire to advance toward the preservation of the world's peace, and difference in method makes no distinction in purpose. It is almost needless to say that the question now before us is so momentous that it transcends all party lines. Party considerations and party interests disappear in dealing with such a question as this. I will follow any man and vote for any measure which in my honest opinion will make for the maintenance of the world's peace. I will follow no man and vote for no measure which, however well intended, seem in my best judgment to lead to discussions rather than to harmony

among the nations or to injury, peril, or injustice to my country. No question has ever confronted the United States Senate which equals in importance that which is involved in the league of nations intended to secure the future peace of the world. There should be no undue haste in considering it. My one desire is that not only the Senate, which is charged with responsibility, but that the press and the people of the country should investigate every proposal with the utmost thoroughness and weigh them all carefully before they make up their minds. If there is any proposition or any plan which will not bear, which will not court the most thorough and most public discussion, that fact makes it an object of suspicion at the very outset. Beware of it; be on your guard against it. Demand that those who oppose the plan now offered present arguments and reasons, based on facts and history, and that those who favor it meet objections with something more relative than rhetoric, personal denunciation, and shrill shrieks that virtue is to be preferred to vice and that peace is better than war. Glittering and enticing generalities will not serve. We must have fact, details, and sharp, clear-cut definitions. The American people cannot give too much thought to this subject, and that they shall look into it with considerate eyes is all that I desire.

A Constitution for a League of Nations

"In the first place, the terms of the league – the agreements which we make, – must be so plain and so explicit that no man can misunderstand them. We must, so far as it can be done by human ingenuity, have every agreement which we make so stated that it will not give rise to different interpretations and to consequent argument. Misunderstandings as to terms are not a good foundation for a treaty to promote peace. We now have before us the draft of a constitution for a league of nations, prepared by a commission or committee, which is to be submitted to the representatives of the nations. The nations, through their delegates, have not agreed to it. It has not passed beyond the stage of a committee report. It is open to amendment and change in the peace conference. The Senate can take no action upon it, but it lies open before us for criticism and discussion. What is said in the Senate ought to be placed before the peace conference and published in Paris, so that the foreign Governments may be informed as to the various views expressed here.

The Constitution Has Been Hastily Drafted

"In this draft prepared for a constitution of a league of nations, which is now before the world, there is hardly a clause about the interpretation of which men do not already differ. As it stands there is serious danger that the very nations which sign the constitution of the league will quarrel about the meaning of the various articles before a twelvemonth has passed. It seems to have been very hastily drafted, and the result is crudeness and looseness of expression, unintentional, I hope. There are certainly many doubtful passages and open questions obvious in the articles which can not be settled by individual inference, but which must be

made so clear and so distinct that we may all understand the exact meaning of the instrument to which we are asked to set our hands. The language of these articles does not appear to me to have the precision and unmistakable character which a constitution, a treaty, or a law ought to present. The language only too frequently is not the language of laws or statutes. The article concerning mandataries, for example, contains an argument and a statement of existing conditions. Arguments and historical facts have no place in a statute or a treaty. Statutory and legal language must assert and command, not argue and describe. I press this point because there is nothing so vital to the peace of the world as the sanctity of treaties. The suggestion that we can safely sign because we can always violate or abrogate is fatal not only to any league but to peace itself. You can not found world peace upon the cynical "scrap of paper" doctrine so dear to Germany. To whatever instrument the United States sets its hand it must carry out the provisions of that instrument to the last jot and tittle, and observe it absolutely both in letter and in spirit. If this is not done the instrument will become a source of controversy instead of agreement, of dissension instead of harmony. This is all the more essential because it is evident, although not expressly stated, that this league is intended to be indissoluble, for there is no provision for its termination or for the withdrawal of any signatory. We are left to infer that any nation withdrawing from the league exposes itself to penalties and probably to war. Therefore, before we ratify, the terms and language in which the terms are stated must be as exact and as precise, as free from any possibility of conflicting interpretations, as it is possible to make them.

Questions and Doubts Concerning the Constitution

"The explanation or interpretation of any of these doubtful passages is not sufficient if made by one man, whether that man be the President of the United States, or a Senator, or anyone else. These questions and doubts must be answered and removed by the instrument itself. It is to be remembered that if there is any dispute about the terms of this constitution there is no court provided that I can find to pass upon differences of opinion as to the terms of the constitution itself. There is no court to fulfill the function which our Supreme Court fulfills. There is provision for tribunals to decide questions submitted for arbitration, but there is no authority to decide differing interpretations as to the terms of the instrument itself.

An Abandonment of the Principles of Washington

"What I have just said indicates the vast importance of the form and the manner in which the agreements which we are to sign shall be stated. I now come to questions of substance, which seem to me to demand the most careful thought of the entire American people, and particularly of those charged with the responsibility of ratification. We abandon entirely by the proposed constitution the policy laid down by Washington in his Farewell Address and the Monroe doctrine. It is worse than idle, it is not honest, to evade or deny this fact, and every fair

mindful supporter of this draft plan for a league admits it. I know that some of the ardent advocates of the plan submitted to us regard any suggestion of the importance of the Washington policy as foolish and irrelevant. Perhaps it is. Perhaps the time has come when the policies of Washington should be abandoned; but if we are to cast them aside I think that at least it should be done respectfully and with a sense of gratitude to the great man who formulated them. For nearly a century and a quarter the policies laid down in the Farewell Address have been followed and adhered to by the Government of the United States and by the American people. I doubt if any purely political declaration has even been observed by any people for so long a time. The principles of the Farewell Address in regard to our foreign relations have been sustained and acted upon by the American people down to the present moment. Washington declared against permanent alliances. He did not close the door on temporary alliances for particular purposes. Our entry in the great war just closed was entirely in accord with and violated in no respect the policy laid down by Washington. When we went to war with Germany we made no treaties with the nations engaged in the war against the German Government. The President was so careful in this direction that he did not permit himself ever to refer to the nations by whose side we fought as 'allies,' but always as 'nations associated with us in the war.' The attitude recommended by Washington was scrupulously maintained even under the pressure of the great conflict. Now, in the twinkling of an eye, while passion and emotion reign, the Washington policy is to be entirely laid aside and we are to enter upon a permanent and indissoluble alliance. That which we refuse to do in war we are to do in peace, deliberately, coolly, and with no war exigency. Let us not overlook the profound gravity of this step.

Washington Was a Very Wise Man

"Washington was not only a very great man but he was also a very wise man. He looked far into the future and he never omitted human nature from his calculations. He knew well that human nature had not changed fundamentally since mankind had a history. Moreover, he was destitute of any personal ambitions to a degree never equaled by any other very great man known to us. In all the vital questions with which he dealt it was not merely that he thought of his country first and of himself second. He thought of his country first and never thought of himself at all. He was so great a man that the fact that this country had produced him was enough of itself to justify the Revolution and our existence as a Nation. Do not think that I overstate this in the fondness of patriotism and with the partiality of one of his countrymen. The opinion I have expressed is the opinion of the world. Fifteen years after Washington's death Byron wrote the famous and familiar lines:

"Where may the wearied eye repose

When gazing on the Great;

Where neither guilty glory glows,
Nor despicable state?
Yes – One – the first – the last – the best –
The Cincinnatus of the West,
Whom Envy dared not hate,
Bequeathed the name of Washington,
To make man blush there was but one!

"That was the opinion of mankind then, and it is the opinion of mankind to-day, when his statue has been erected in Paris and is about to be erected in London. If we throw aside the political testament of such a man, which has been of living force down to the present instant, because altered circumstances demand it, it is a subject for deep regret and not for rejoicing. When Washington prepared the Farewell Address he consulted Hamilton, perhaps the greatest constructive mind among modern statesmen, who prepared a large part of the draft; Madison, one of the chief framers of the Constitution and President of the United States; John Jay, Chief Justice and one of the great lawyers in our history. Following them came Thomas Jefferson, James Monroe, and John Quincy Adams, bringing the Monroe doctrine to complete and round out the principles of Washington to which they were all alike devoted. If we are to be driven by modern exigencies to dismiss Washington and his counselors and the men who declared the Monroe doctrine from our consideration, we ought, at least, as these stately figures pass off the stage of guiding influence, to pay our homage to them and not relegate them to the shades of the past with jeers and laughter directed against their teachings.

Disappearance of the Monroe Doctrine

"But if we put aside forever the Washington policy in regard to our foreign relations we must always remember that it carries with it the corollary known as the Monroe doctrine. Under the terms of this league draft reported by the committee to the peace conference the Monroe doctrine disappears. It has been our cherished guide and guard for nearly a century. The Monroe doctrine is based on the principle of self-preservation. To say that it is a question of protecting the boundaries, the political integrity, of the American States, is not to state the Monroe doctrine. Boundaries have been changed among American States since the Monroe doctrine was enunciated. That is not the kernel of the doctrine. The real essence of that doctrine is that American questions shall be settled by Americans alone; that the Americas shall be separated from Europe and from the interference of Europe in purely American questions. That is the vital principle of the doctrine.

An Entangling Alliance

"I have seen it said that the Monroe doctrine is preserved under article 10; that we do not abandon the Monroe doctrine, we merely extend it to all the world. How anyone can say this passes my comprehension. The Monroe doctrine exists solely for the protection of the American Hemisphere, and to that hemisphere it was limited. If you extend it to all the world, it ceases to exist, because it rests on nothing but the differentiation of the American Hemisphere from the rest of the world under this draft of the constitution of the league of 'nations, American questions and European questions and Asian and African questions are all alike put within the control and jurisdiction of the league. Europe will have the right to take part in the settlement of all American questions, and we, of course, shall have the right to share in the settlement of all questions in Europe and Asia and Africa. Europe and Asia are to take part in policing the American continent and the Panama Canal, and in return we are to have, by way of compensation, the right to police the Balkans and Asia Minor when we are asked to do so Perhaps the time has come when it is necessary to do this, but it is a very grave step, and I wish now merely to point out that the American people ought never to abandon the Washington policy and the Monroe doctrine without being perfectly certain that they earnestly wish to do so. Standing always firmly by these great policies, we have thriven and prospered and have done more to preserve the world's peace than any nation, league, or alliance which ever existed. For this reason I ask the press and the public and, of course, the Senate to consider well the gravity of this proposition before it takes the heavy responsibility of finally casting aside these policies which we have adhered to for a century and more and under which we have greatly served the cause of peace both at home and abroad.

The Importance of the Monroe Doctrine

"Very complete proof must be offered of the superiority of any new system before we reject the policies of Washington and Monroe, which have been in our foreign relations the Palladium of the Republic. Within the memory of those to whom I now speak the Monroe doctrine stopped the incursions of England upon the territory of Venezuela and settled the boundary question finally by arbitration. Under the Monroe doctrine we arrested the attempt of Germany to take Venezuelan territory on another occasion. In these two instances the doctrine was enforced by a Democratic President and by a Republican President and they were supported in so doing by all the people of the United States without regard to party. I mention these cases merely to show that we are not cutting away dead limbs from the body politic, but that we are abandoning two cardinal principles of American government, which until the presentation of this draft for the constitution of the league of nations, were as vital as on the day when Washington addressed the people of the United States for the last time or when President Monroe announced his policy to the world. What has happened since November 11, 1918, to make them so suddenly valueless, to cause them to be regarded as injurious obstacles to

be cast out upon the dust heaps of history? It seems to me that is a question which at least deserves our consideration before we take action upon it.

Future Military Entanglements

"Two other general propositions, and I shall proceed to examine these league articles in detail. In article 10 we, in common, of course, with the other signatories and members of the projected league, guarantee the territorial integrity and the political independence of every member of the league. That means that we ultimately guarantee the independence and the boundaries, as now settled or as they may be settled by the treaty with Germany, of every nation on earth. If the United States agrees to guaranties of that sort we must maintain them. The word of the United States, her promise to guarantee the independence and the boundaries of any country, whether she does it alone or in company with other nations, whether she guarantees one country or all the countries of the world, is just as sacred as her honor – far more important than the maintenance of every financial pledge, which the people of this country would never consent to break.

The Need for a Large Military Apparatus

"I do not now say the time has not come when, in the interest of future peace, the American people may not decide that we ought to guarantee the territorial integrity of the far-flung British Empire, including her self-governing dominions and colonies, of the Balkan States, of China, or Japan, or of the French, Italian, and Portuguese colonies in Africa; but I do suggest that it is a very grave, a very perilous promise to make, because there is but one way by which such guaranties, if ever invoked, can be maintained, and that way is the way of force – whether military or economic force, it matters not. If we guarantee any country on the earth, no matter how small or how large, in its independence or its boundaries, that guarantee we must maintain at any cost when our word is once given, and we must be in constant possession of fleets and armies capable of enforcing these guaranties at a moment's notice. There is no need of arguing whether there is to be compulsive force behind this league. It is there in article 10 absolutely and entirely by the mere feet of these guaranties. The ranks of the armies and fleets of the navy made necessary by such pledges are to be filled and manned by the sons, husbands, and brothers of the people of America. I wish them carefully to consider, therefore, whether they are willing to have the youth of America ordered to war by other nations without regard to what they or their representatives desire. I would have them determine after much reflection whether they are willing to have the United States forced into war by other nations against her own will. They must bear in mind constantly that we have only one vote in the executive council, only one vote in the body of delegates, and a majority of the votes rules and is decisive.

The Need to Modify the U.S. Constitution

"I am not here to discuss the constitutional question of the sole right of Congress to declare war. That is a detail, as it relates only to the Constitution, which we may decide later. In my own opinion, we shall be obliged to modify the Constitution. I do not think, and I never can admit, that we can change or modify the Constitution by a treaty negotiated by the President and ratified by the Senate. I think that must be done! and can only be done, in the way prescribed by the Constitution itself, and to promise to amend our Constitution is a serious task and a doubtful undertaking.

Preparations for War

"I hope the American people will take time to consider this promise before they make it – because when it is once made it can not be broken – and ask themselves whether this is the best way of assuring perfect peace throughout the future years, which is what we are aiming at, for we all are aiming at the same object. A world's peace which requires at the outset preparations for war – for war either economic or military – in order to maintain that peace, presents questions and awakens thoughts which certainly ought to be soberly and discreetly considered.

Involvement in International Dispute

"The second general proposition to which I would call attention is this: We now in this draft bind ourselves to submit every possible international dispute or difference either to the league court or to the control of the executive council of the league. That includes immigration, a very live question, to take a single example. Are we ready to give to other nations the power to say who shall come into the United States and become citizens of the Republic? If we are ready to do this, we are prepared to part with the most precious of sovereign rights that which guards our existence and our character as a Nation. Are we ready to leave it to other nations to determine whether we shall admit to the United States a flood of Japanese, Chinese, and Hindu labor? If we accept this plan for a league, this is precisely what we promise to do. I know that by following out all the windings of the provision for referring to the council or allowing the council to take charge of what has been called hitherto a conjunctible question, we shall probably reach a point where it would not be possible to secure unanimous action by the league upon the question of immigration. But, Mr. President, I start with the proposition that there should be no jurisdiction in the league at all over that question; that it should be separated absolutely and entirely from any jurisdiction of the league. Are we prepared to have a league of nations – in which the United States has only one vote, which she could not cast on a dispute to which she was a party – open our doors, if they see fit, to any and all immigration from all parts of the world?

U.S. Is to Give Up Sovereignty and Independence

"Mr. Taft has announced, in an article which appeared in the National Geographic Magazine, that the question of immigration will go before the international tribunal, and he says now that all organized labor is for the league. If American labor favors putting the restriction of immigration in the control of other nations they must have radically changed their minds and abandoned their most cherished policy. Certainly the gravity of such promises as are involved in the points I have suggested is sufficient to forbid haste. If such promises are to be given they must be given in cold blood with a full realization of what they mean and after the American people and those who represent them here have considered all that is involved with a serious care such as we have never been called upon to exercise before. We are asked to abandon the policies which we have adhered to during all our life as a Nation. We are asked to guarantee the political independence and the territorial integrity of every nation which chooses to join the league – and that means all nations as the President stated in his speech at Manchester. We are asked to leave to the decision of other nations, or to the jurisdiction of other nations, the question of what immigrants shall come to the United States. We are asked also to give up in part our sovereignty and our independence and subject our own will to the will of other nations, if there is a majority against our desires. We are asked, therefore, in a large and important degree to substitute internationalism for nationalism and an international state for pure Americanism. Certainly such things as these deserve reflection, discussion, and earnest thought.

The League May Lead to War

"I am not contending now that these things must not be done. I have no intention of opposing a blank negative to propositions which concern the peace of the world, which I am as anxious to see promoted as any living man can be; but I do say, in the strongest terms, that these things I have pointed out are of vast importance not only to us but to the entire world, and a mistake now in making the league of nations might result in more war and trouble than the old system in its worst days. What I ask, and all I ask, is consideration, time, and thought.

"The first and most practical question for us to consider and decide is whether the terms of this committee draft of a constitution for the league of nations really make for harmony among the nations or will tend to produce dissension and controversy. We all desire peace, but in our zeal for peace we must be careful not to create new obligations and new and untried conditions, which may lead to fostering war rather than peace. For this reason I am going now to examine the articles in the draft of the constitution for the league of nations one by one.

"Upon the preamble we need not pause. It states purposes and objects, with which everybody of course is in sympathy.

Selection of Officers and Delegates

"Article 1 deals with the officers and the delegates, and they are sufficiently and clearly provided for, and also that there shall be an international secretariat. I think nothing is omitted so far as the creation of offices goes.

"Nothing is said about how the delegates shall be chosen. That, of course, is a matter which is left to each nation to determine, but I venture, with all respect, to suggest that delegates representing the United States in what is to be a world state, to which we are to give a portion of our sovereignty and independence, ought to represent the United States; they ought to be selected by the people of the United States or appointed as ambassadors and consuls are appointed. I think these delegates, who are certainly as important as ambassadors or consuls, should be appointed by the usual method of the President and the Senate, and not ever be allowed to be irresponsible personal agents. That, however, is something we can attend to here, I think, when the league of nations is submitted to us in treaty form.

Each Nation to Have One Vote

"Article 2 refers to the meetings of the body of delegates, and also provides that "each of the high contracting parties shall have one vote but may not have more than three representatives." Therefore the voting in the body of delegates proceeds on the well-settled principle of international law that each national sovereignty is equal to every other national sovereignty, and the United States will have one vote and so will Siam.

Executive Council

"In Article 3 we come to the executive council, which is of the greatest possible importance, for it is in the provision stated here – and also I am sure, as practice will show – the controlling force of the entire league:

"The executive council shall consist of representatives of the United States of America, the British Empire, France, Italy, and Japan, together with representatives of four other States, members of the league.'

"What other States shall be selected has not yet been disclosed to us, but there must be four other States. The executive council now has five members – three from Europe, one from Asia, and one from America. Ultimately it will have nine members. I assume, and I think I have the right to assume, on the best authority, that there is no intention of making Germany one of the four nations to be added to the existing five which will compose the nine members of the executive council. I think it is probable that Germany will have a period of probation before she is even admitted to the league, and that seems to me to be eminently wise.

"Then the article provides for the meeting of the council, and then says in the last paragraph:

"Invitations shall be sent to any power to attend a meeting of the council at which matters directly affecting its interests are to be discussed, and no decision taken at any meeting will be binding on such powers unless so invited.'

"This, of course, looks to having the executive council consider the affairs of every country in the world, whether they are members of the league or not, and all the council has to do in order to make its action binding on such powers is to invite them to be present. It is a paragraph not without importance.

"ARTICLE 4. All matter of procedure at meetings of the body of delegates or the executive council, including the appointment of the committees to investigate particular matters, shall be regulated by the body of delegates or the executive council, and may be decided by a majority of the States represented at the meetings.'

"It is to be decided by the executive council, where we shall have one vote in five, or, when the council is enlarged, one vote in nine, and in the body of delegates, of course, only one vote.

"Then comes article 5, which provides for the secretariat and concerns only offices and provisions for expenses. The words creating offices and providing for salaries leave no room for doubts or questionings.

"Article 6 is a matter of course. It simply gives the delegates diplomatic immunities and privileges.

"Article 7 covers the admission to the league of States and, when a State is invited to adhere, "requires the assent of not less than two-thirds of the States represented in the body of delegates, and shall be limited to fully self-governing countries, including dominions and colonies.

"The inclusion of dominions and colonies, of course, covers the four great self-governing dominions of Great Britain. I have no fault to find with the arrangement. Canada, New Zealand, South Africa, and Australia are far more worthy and more valuable members of a league of nations than some of the nations which I think will find their way into the body. But the fact remains that in the body of delegates England has five votes to one vote of any other country.

Admission to the League

The next paragraph says:

"No State shall be admitted to the league unless it is able to give effective guaranties of its sincere intention to observe its international obligations.'

"I do not wish to seem hypercritical, but I think that in a document of this kind we should know a little better what an 'effective guaranty of a sincere intention' is.

"How can we have an effective guaranty of a sincere intention ?

"I merely throw this out as one of the points which it seems to me ought to be made clear. Let us know what it means. How are we to test the sincerity of the intention? How are we to get a guaranty for the sincerity of the intention in advance, I think it would be well to have that more precisely defined.

Disarmament

"We now come to article 8, which refers to disarmament, a most important question, one of the most important in the constitution of the league, with the purpose of which everybody must be in the keenest sympathy. The reduction of armaments, if it can be brought about successfully, will be of the greatest value to the world and relieve the people of all countries from a burden of taxation which has become intolerable. But its very importance makes it necessary, in my opinion, to express what is to be done with the utmost clearness. The article says:

"The high contracting parties recognize the principle that the maintenance of peace will require the reduction of national armaments to the lowest point consistent with national safety and the enforcement by common action of international obligations –'

"That is, the reduction must be consistent with the 'enforcement by common action of international obligation,' words to be considered and which the instrument itself must explain.

"Here we are dealing solely with military force which we are seeking to reduce, and it is recognized that in disarmament one of the elements to be considered is the "enforcement by common action of international obligations," which, I assume – we have to assume more or less as we pass along through these articles – refers to the obligations of the league. We certainly owe no international obligation to anybody else to-day as to what fleets and armies we shall have. Yet this article contemplates as one of the tests of disarmament the amount of force which will be needed to carry out the purposes of the league. The article continues:

" – having special regard to the geographical situation and circumstances of each State, and the executive council shall formulate plans for effecting such reduction.'

"I do not know how far the formulation has a binding effect, but the article goes on to say:

"The executive council shall also determine for the consideration and action of the several Governments what military equipment and armament is fair and reasonable in proportion to the scale of forces laid down in the program of disarmament –'

"Laid down.' Again I have to interpret. Laid down, I assume, by the executive council itself, because it is they who make the program –

" – and these limits when adopted, shall not be exceeded without the permission of the executive council.'

A Binding Provision

"There comes in an absolutely binding provision. It says 'when adopted.' Adopted by whom? The natural inference is, adopted by the several governments, if you trace it back through the wording of the previous paragraphs. Ought not an instrument of this vital character to be drafted with the ordinary care which a clerk gives in drafting a clause in an appropriation bill for a Senate committee? Ought it not to be stated clearly, 'thus adopted by the several governments,' and then there can be no question that each government will decide on the program itself and its own share before it is put in a position where it can never exceed that program without the permission of the executive council – I assume the majority of the executive council. That is another thing which apparently it has not been thought worth while to state, but I do not think you can be too clear when you are exacting from nations these great promises and laying upon them these heavy burdens.

"The high contracting parties agree that the manufacture by private enterprise of munitions and implements of war lends itself to grave objections, and direct the executive council to advise how the evil effects attendant upon such manufacture can be prevented.'

"That, I take it, is mere advice to be laid before the body of delegates, but it is not explained how far the advice goes.

"The high contracting parties –'

"The last paragraph says –

" – undertake in no way to conceal from each other the condition of such of their industries as are capable of being adapted to warlike purposes or the scale of their armaments, and agree that there shall be full and frank interchange of information as to their military and naval program.'

"An admirable proposition! Certainly it can not but add to the prospect of the peace of the world if every nation shall explain to every other nation just what military and naval program it has; but there seems to be no method expressed here by which they can be compelled to give that information, except by saying that if they do not do it, they fail in a moral obligation and will be guilty of what some people might define as 'moral obliquity.'

A Permanent Commission to Advise the League

" Article 9 says:

"A permanent commission shall be constituted to advise the league on the execution of the provisions of article 8 and on military and naval questions generally.'

"A very useful body, but constituted by whom? There is not one syllable in the article to show by whom it shall I be constituted. It may be unnecessary to do it; we may be able to infer it; but when you get into the misty region of inferences by individuals you must have some tribunal established like our Supreme Court, which can declare whether the inference is correct or not.

Preservation of Territorial Integrity

"Article 10 is probably the most important article in the whole constitution – I have already referred to it – because to me it is graver than anything else with perhaps one exception in this entire treaty. It is also perfectly clear.

"The high contracting parties undertake to respect and preserve as against external aggression the territorial integrity and existing political independence of all States members of the league. In case of any such aggression, or in case of any threat or danger of such aggression, the executive council shall advise upon the means by which the obligation shall be fulfilled.'

"The executive council is to have the power of advice, which I do not suppose is binding at all, but the guaranty remains, and, as I have already said, it cannot be too often repeated, that when one nation guarantees the political independence and the territorial integrity of another, that guaranty must be maintained, and guaranties can only be maintained by the exercise in the last resort of the force of the nation. If we were to guarantee the political independence and territorial integrity of Mexico or Guatemala, or any of those States, we should have to stand behind them with our armies and our fleets when the guaranty was invoked, and there is no escape from that obligation. Those plain words demand it. I am not now arguing whether we should give the guaranty or whether we should not give the guaranty, but I beg my fellow countrymen to consider well before they give this promise to invoke the mighty power of the United States in order to enforce a guaranty which extends to the boundaries of every State on the face of the earth. It is a tremendous

promise, and if we give it this country must carry it out. The United States must never be guilty of in any way impairing the sanctity of treaties. But let us think well before we do it. Let us consider it. In the presence of such promises as that, is it unreasonable to ask that the American people should have time to consider, to realize, just what it means before they give the promise? If they decide coolly and deliberately, there is nothing more to be said; we bow to it, and Congress will fulfill it; but that is too weighty a promise to make by simply saying, 'I am in favor of a league of nations and of the eternal peace of the world.' A mere title does not carry with it any explanation of the responsibility which is undertaken.

A Military Alliance

"ARTICLE 11. Any war or threat of war, whether immediately affecting any of the high contracting parties or not, is hereby declared a matter of concern to the league, and the high contracting parties reserve and effectual to safeguard the peace of nations.'

"Any action' covers war –

"It is hereby also declared and agreed to be the friendly right of each of the high contracting parties to draw the attention of the body of delegates – '

"Which I suppose means the five who are now assigned and the four who are to join with them, making nine in all –

" – to draw the attention of the body of delegates or of the executive council to any circumstances affecting international intercourse which threaten to disturb international peace or the good understanding between nations upon which peace depends.'

"Everyone must agree to that, except for the slight uncertainties of statement; but it embodies in practice one of the paragraphs of the Hague convention.

Settlement of Disputes

"Now we come to the disputes. Those articles relating to the settlement of disputes would require a long time by themselves, if we touched nothing else, to discuss, and also to understand. I merely wish to call attention to a few points which occur on a casual reading. It says in article 12 'disputes.' It says in article 13 'any disputes.' That means any dispute that may arise among nations, of any kind, whether involving domestic or internal matters or foreign relations. The words "any disputes" cover everything. On that point I wish to reiterate what I have already said. I am not going further into it.

"It is no reply to the point that is made about immigration to say that, if you follow it through all the windings of the provisions here for justiciable and

nonjusticiable questions you will find it reaches a point where the league could do nothing about immigration into the United States unless it was unanimous, and that it is very unlikely they would ever be unanimous. Granted; it is unlikely that the league will ever be unanimous about anything, but the possibility is there. I deny the jurisdiction. I do not think we should leave to the league any question as to immigration, because immigration lies at the very root of national character and national economy; it ought to be made plain that the league has no jurisdiction whatever over such questions in any way. We do not want a narrow alley of escape from the jurisdiction of the league. We want to prevent any jurisdiction whatever. As we stand to-day no nation or nations can say who shall come into the United States. There is only one rule as to that, and that is the rule of the United States. It should so remain. What I say for the United States I mean for every other nation. No nation should be compelled to admit anyone within its borders whom it does not choose to admit.

Veneration for the Drafting Committee

"Some of these points I think it might be well for those who prepared this draft to consider. Perhaps I do not regard the drafting committee with the veneration which the Senator from Nebraska (Mr. Hitchcock) feels toward them; I know some of them, and, without reflecting upon them in any way, I do not think their intellect or position in the world are so overpowering that we can not suggest amendments to this league. I can not say I know them all; I do not believe anybody here could get up and say who the 11 members of that commission are.

Submitting Disputes to Executive Council

"But there is a practical question to which I was about to call attention. This constitution here says until three months there shall be 'no resort to war without previously submitting the question and matters involved either to arbitration or to inquiry by the executive council and until three months after award by the arbitrators or a recommendation by the executive council.'

"That binds the members of the league; but there have been outlaws among the nations before now. As a matter of history, the sudden manner in which Frederick the Great threw aside all his most solemn promises and poured his armies over Silesia, which Prussia has held ever since he tore it from Austria. How was this present war begun? By the sudden precipitation of an enormous war machine on the unprepared lands of Belgium and the nearly unprepared territory of France.

"Suppose we had a Mexican raid across our border. It has happened. Perhaps Mexican nature has changed and it will never happen again, but it may happen. We are members of the league, we will suppose, and mean to carry out, as we must, every provision in absolute good faith. Mexico does not happen, we will say, to be a member of the league, or she is a member and breaks her covenants; she has not yet given "effective guaranties of sincere intention"; she breaks across our border,

and under this article we have got to wait three months before we do anything. That, I think, would be a little hard on the people who live on the border.

"Article 13 reads:

"The high contracting parties agree that whenever any dispute or difficulty shall arise between them which they recognize to be suitable for submission to arbitration –'

"That is, disputes which a majority of the high contracting parties recognize to be suitable for submission to arbitration –

" – and which cannot be satisfactorily settled by diplomacy, they will submit the whole matter to arbitration.'

"Of course, the only people who can submit a matter to arbitration are the people who are parties to the dispute. Those who have no dispute can not submit anything to arbitration, because they have nothing to submit.

"The reason I bring this apparently trivial point up at this time is that it will be well to differentiate these 'theys' and show that in one case the reference is to the high contracting parties who agree that any dispute that arises among them suitable for submission shall be submitted, and, in the other that those between whom the dispute arises will submit it. This is clearly the meaning, I think, but it might be expressed a little more luminously.

"The executive council 'proposes,' I suppose, by a majority, although it does not say so; and how binding the proposal is does not appear. I think it ought to be explicitly stated that a majority of the executive council shall have the power to propose and declare whether the proposal is binding or not. The word 'propose' does not imply a binding character, I am well aware; but I should like to get rid of one of the implications of which this document is full.

A Permanent Court of International Justice

"Article 14 provides that 'the executive council shall formulate plans for the establishment of a permanent court of international justice.'

"Then comes article 15, which is very important, and which provides for those disputes "likely to lead to rupture," which are not submitted to arbitration, but which the high contracting parties agree they will refer to the executive council through the secretary general. They are to make their statements of the case there and such recommendations are to be made as the executive council thinks just and proper for the settlement of the dispute, and 'if the report is unanimously agreed to by the members of the council other than the parties to the dispute the high

contracting parties agree that they will not go to war with any party which complies with the recommendations.'

"Unless the council is unanimous, I take it, they are at liberty to go to war. And "if any party shall refuse so to comply the council shall propose measures necessary to give effect to the recommendation." There is no explanation of what measures. I presume we must take it to mean all measures. I will not follow the referred dispute through all its tortuous pathway, but it comes eventually to the body of delegates, and in that connection the proposed constitution says:

"All the provisions of this article and of article 12 relating to the action of the executive council shall apply to the action and powers of the body of delegates.'

"This means that the body of delegates, as I take it, must unanimously agree, and, if they do not unanimously agree it appears to me to leave the whole matter open. This may be a protection in certain cases, but in other cases, it seems to me, it does not offer a very strong resistance or create a very serious obstacle to war.

Economic War

"Now we come to article 16, which says that:

"Should any of the high contracting parties break or disregard its covenants under article 12 it shall thereby ipso facto be deemed to have committed an act of war against all the other members of the league, which hereby undertake immediately to subject it to the severance of all trade or financial relations, the prohibition of all intercourse between their nationals and the nationals of the covenant-breaking State, and the prevention of all financial, commercial, or personal intercourse between the nationals of the covenant-breaking State and the nationals of any other State, whether a member of the league or not.'

"There can be no doubt, under the conditions given, that we shall be called upon to enter on an economic war with any State on earth, whether a member of the league or not, if that State breaks or disregards any of the covenants relating to arbitration. I merely call attention to it because I venture to think that cutting off our intercourse with another nation and opening our territory to the passage of troops is a very serious promise to make; and I think it ought to be honored with more consideration than perhaps it has yet received.

"Article 16 contemplates also the duties of the executive council in such cases 'to recommend what effective military or naval forces the members of the league shall severally contribute to the armed forces to be used to protect the covenants of the league.'

Disregard for the U.S. Constitution

"Here it is apparent that there can be no question that the armed forces of the United States are to be called upon for work of this kind; and if we are to act in good faith, it seems to me we are morally bound by this clause to contribute what the executive council recommends to the armed forces called forth to protect the covenants of this league. We may say their recommendation does not bind, but it certainly binds us morally if we agree to it; and I do not think that we can afford to enter a league of nations for the preservation of the peace of the world with any misunderstanding on a point of this kind. It seems to me that, in any event, this is a direct interference with the power of Congress to raise armies and maintain navies, and we shall be compelled to have a constitutional amendment in order that this provision may be carried out. However, I am not going at this time to enter upon constitutional questions, which are regarded by most advocates of the league as either humorous or academic.

"Article 17 refers to the case of disputes between members of the league and other States not members, and makes various provisions raising many of the questions which are raised by the preceding article.

Provisions for Mandatories

"Article 19 is one of the great articles of the proposed constitution. It provides for the States of the league being mandatories and taking charge of other States classified under various descriptions in the article, which I will not read. Oddly enough, it does not say who is to select the mandatories; at least, I can find nothing in the article stating who is to choose the mandatories, whether the body of the delegates or the executive council; nor does it appear whether a mandatory is bound if once selected. I presume not; but it is not stated. I do not think it is hypercriticism to suggest that when a mandatory is to be selected to take charge of the fortunes of another people, or of another State, there should be some provision for the selection of the mandatory, and it should be made clear, at least, whether the nation so selected is bound.

"I am not going into the general question of taking up the work of the mandatories and holding States in tutelage. That was so thoroughly covered by the Senator from Iowa (Mr. Cummins) that it is not necessary for me to take the time of the Senate to discuss it further; but I suggest this thought – and I shall keep on suggesting it – that before the United States binds itself in any way it should be made clear to what extent it is bound, for I have no sympathy with the proposition that we can refuse this and refuse that; in other words, that we can violate the principles of the treaty whenever we feel like it. I think that idea ought to be finally dismissed. What we are bound to in honor we are bound to do, and I think whether we should be prepared to take charge of other countries and of other people is an important question for the American people to decide. I am not speaking now of

States which we are to establish as a result of the war. We must help in the establishment of such States. But that belongs to the German peace. The peace with Germany will settle the boundaries of Poland and the Jugo-Slav and the Czecho-Slovak States and the rest. That is part of the German peace which we are bound to see through; but this article 19 is a promise to enter upon the work of trusteeship for all time, and I venture to think it is very serious and deserves much thoughtful consideration.

Maintaining Fair Labor Conditions

"Of course article 20, for securing or maintaining fair and humane conditions of labor for men, women, and children is an article in which everyone must sympathize.

"Now, article 21:

"The high contracting parties agree that provision shall be made through the instrumentality of the league to secure and maintain freedom of transit and equitable treatment for the commerce of all States members of the league – "

"Freedom of transit.' Does that mean transit by land alone, or does it mean transit by land and water? If it means transit by land and water we shall have to repeal our coastwise laws.

Jurisdiction Over Tariffs

"Equitable treatment for the commerce of all States members of the league.' Under that phrase every tariff duty which any other nation thought was inequitable, the league of nations could take hold of, and "recommend" or "advise," or "decide," whatever the word may be. If we leave this loose language there, the tariff and all import duties of every nation will come before the league. If we think that there is an unjust discrimination against some American goods by any country, we have a right to take it before the league and see if we can not get equitable treatment. I think this opens up a wide field of dispute. It does not seem to me, moreover, that to throw all questions of tariff or of import duties into the jurisdiction of the league can do anything to promote peace. I think, on the contrary, it will be a breeder of dissension. I do not see how it can be anything else.

"That is the first very vital objection to it in my mind; but I also have a feeling – and, of course, I am aware it is an old-fashioned one – that the Constitution gives to the House of Representatives the right to originate all bills to raise revenue; and this meddling of the league with tariff rates, of course, would affect revenue very seriously.

"Next come the international bureaus, in article 22, to which no one would object.

Bypassing the U.S. Constitution

"Then comes article 23, which provides that no such treaty or international engagement, when once made, shall be binding until it has been registered by the secretary general. Our Constitution says that it shall become binding after it has been ratified by the Senate and ratifications have been exchanged; and this seems to add a new condition to the constitutional conditions. I am told by friends of this treaty that we can hold back ratification until the registry has taken place, but while this ingenious scheme undoubtedly slips by the Constitution, it seems to me that it would be just as well to make it plain and avoid a constitutional objection which would get into our courts if nowhere else.

Unclear Passage

"Article 24 is not very clear, but it says:

"It shall be the right of the body of delegates from time to time to advise the reconsideration by State members of the league of treaties which shall become inapplicable and of international conditions of which the continuance may endanger the peace of the world.

"I confess I do not clearly understand what is meant by this. I have no doubt that there are Senators, who like the league just as it is printed, who perhaps can explain that thoroughly; but 'international conditions of which the continuance may endanger the peace of the world' needs some examination.

Limitation Upon the Treaty-Making Power of the Constitution

"Article 25 provides that we solemnly engage not to enter hereafter into any engagements inconsistent with the terms of the league of nations. Now, that is a distinct limitation upon the treaty-making power of the Constitution. That is a new provision which must be added, in my judgment, by constitutional amendment if this article remains unchanged. The Constitution gives us very well-defined powers as to treaty-making, and here we promise that we will not enter upon any engagement inconsistent with the terms of the league of nations. The object is excellent, of course, but it nevertheless raises a very obvious constitutional difficulty.

Provision for Amendments

"The provision for amendments to the constitution of the league makes amendment very difficult, if not practically impossible. That is another reason why I am anxious, perhaps unduly anxious, as to the importance of having these articles clear and precise now, before we are asked to approve them. When our Constitution was formed we had in the convention some 50 of the ablest men in the country, and some of the ablest men, I believe, in the world. They took some three

months, as I recall, in their work. They had a committee on style, headed by Gouverneur Morris, and that is the reason the language of the Constitution of the United States is so extremely clear, precise, and excellent; and yet, precise and clear as those articles are, under them, and especially under the grant in regard to commerce between the States, have arisen questions, the decisions of which by the Supreme Court would fill volumes, showing the extreme difficulty and also the need of extreme care in phraseology. I think a committee on style in this league to redraft the proposed constitution and put it in legal language, would not have been amiss.

No Provision for Withdrawal

"Finally, as I come to the end, the Senate will observe that there is no provision for withdrawal. That is very important. We are making an indissoluble treaty. The old fashion of treaties, always beginning by swearing eternal friendship, common certainly as late as the seventeenth century, has been abandoned in modern time entirely. Almost all treaties now contain provision for terminating the treaty on due notice. Others limit the life of the treaty. An indissoluble treaty, without the right of withdrawal, is very unusual.

"It has been pointed out to me – not once but many times – that we can abrogate, that we can violate, that we can overrule any treaty by the action of Congress. I know that. We can denounce it. I know that. I think, however, that to form a league of this kind and leave it in such a form that no nation can get out of it except by abrogation, by violation, or by denunciation – action which usually in the intercourse of nations means war – is very serious. If the right of withdrawal were preserved, a nation could withdraw – on due notice, of course -without shattering the league or impairing in any way the sanctity of treaties. It seems to me there ought to be some such provision. If you leave a country – I am not speaking merely of the United States – tied hard and fast so that they can not get out of this league without tearing everything to pieces by denouncing it or by abrogating it or violating it, you create a situation which in my mind does not promote the peace of nations, but the very reverse.

Passion and Emotion Are Not Going to Perish

"I have seen here not so many years ago an occasion Cs when, in a burst of passion, the House of Representatives swept away a treaty with a friendly nation, which contained provisions for notice and withdrawal, without any regard for the terms of the treaty. The resolution was modified here so as to avoid insult and offense; but that was the way it passed the House in a moment of anger and excitement. Passion and emotion are not going to perish or die out of men because we sign an agreement for a league of nations. They will remain. The case to which I have referred, which was with Russia, involved the good relations of the United States with one nation; but such treatment of the provisions of the league would

involve a similar feeling on the part of all nations of the earth, practically all members of the league. I think this is a very serious danger, a danger to that peace of the world which we are all seeking to promote. It must be avoided by a simple amendment.

Uncertainties Cloud the League

"Thus, very imperfectly, I have reviewed these articles. I have stated some of the doubts and questionings which have arisen in my own mind, and I could print in the *Record* letters which I have received showing other points and questions which have occurred to other minds. This demonstrates the uncertainties which cloud this instrument from beginning to end. When the United States enters into an indissoluble permanent alliance there ought to be, as I have said, no uncertainties in the terms of the agreement. I earnestly desire to do everything that can be done to secure the peace of the world, but these articles as they stand in this proposed constitution seem to give a rich promise of being fertile in producing controversies and misunderstandings. They also make some demands which- I-do-not believe any nation would submit to in a time of stress. Therefore this machinery would not promote the peace of the world, but would have a directly opposite effect. It would tend to increase the subjects of misunderstanding and dispute among the nations. Is it not possible to draft a better, more explicit, less dangerous scheme than the one here and now presented? Surely we are not to be shut up to this as the last and only word to take or leave.

League Will Curtail Sovereignty and Independence of U.S.

"To those who object that the criticism of this tentative draft plan of the committee of the peace conference must be not only destructive but constructive it might be said that the burden of proof lies upon those who propose, in order to establish the future peace of the world, that the United States must curtail its independence, part with a portion of its sovereignty, and abandon all the international policies which have been so successful for more than a hundred years. Those who support the present draft of the constitution for the league must demonstrate that it is an improvement before they can expect its general acceptance. But the Senate can not at this time undertake to make plans for a league; because we are in the process of negotiation, and the Senate does not begin to act until the stage of ratification is reached. At the same time there are certain constructive propositions which it would be well, I think, for the peace conference to consider. If it is said that you can preserve the Monroe doctrine by extending it, which appears to me clearly to mean its destruction and to be a contradiction in terms, then let us put three lines into the draft for the league which will preserve the Monroe doctrine beyond any possibility of doubt or question. It is easily done. Let us also have, if we enter the league, a complete exclusion from the league's jurisdiction of such questions as are involved in immigration and the right of each country to say who shall come within its borders and become citizens. This and

certain other questions vital to national existence ought to be exempted from any control or jurisdiction by the league or its officials by a very few words, such as can be found in the arbitration treaties of 1907. There should be some definite provision for peaceful withdrawal from the league if any nation desires to withdraw. Lastly, let us have a definite statement in the constitution of the league as to whether the league is to have an international force of its own or is to have the power to summon the armed forces of the different members of the league. Let it be stated in plain language whether the "measures," the "recommendations," or the suggestions of the executive council are to be binding upon the members of the league and are to compel them, technically or morally, to do what the league delegates and the executive council determine to be necessary. On the question of the use of force we should not proceed in the dark. If those who support the league decline to make such simple statements as these – I mean statements in the body of the instrument, not individual statements – it is impossible to avoid the conclusion that they are seeking to do by indirection and the use of nebulous phrases what they are not willing to do directly, and nothing could be more fatal to the preservation of the world's peace than this, for every exercise of power by the executive council which the signatories to the league might fairly consider to be doubtful would lead to very perilous controversies and to menacing quarrels.

The U.S. Should Go Forward Under the Monroe Doctrine

"Unless some better constitution for a league than this can be drawn, it seems to me, after such examination as I have been able to give, that the world's peace would be much better, much more surely promoted, by allowing the United States to go on under the Monroe doctrine, responsible for the peace of this hemisphere, without any danger of collision with Europe as to questions among the various American States, and if a league is desired it might be made up by the European nations whose interests are chiefly concerned, and with which the United States could cooperate fully and at any time, whenever cooperation was needed. I suppose I shall make myself the subject of derision for quoting from the Farewell Address, but it states a momentous truth so admirably that I can not refrain from giving it, for I think it ought to be borne in mind. Washington says:

"Europe has a set of primary interests which to us have none or a very remote relation. Hence she must be engaged in frequent controversies the causes of which are essentially foreign to our concerns. Hence, therefore, it must be unwise in us to implicate ourselves by artificial ties in the ordinary vicissitudes of her politics or the ordinary combinations and collisions of her friendships or enmities.'

All the Great Wars Have Originated in Europe

"It must be remembered that if the United States enters any league of nations it does so for the benefit of the world at large, and not for its own benefit. The people of the United States are a peace-loving people. We have no boundaries to rectify,

no schemes, and no desires for the acquisition or conquest of territory. We have in the main kept the peace in the American hemisphere. The States of South America have grown constantly more stable, and revolutions have well-nigh disappeared in the States south of those bordering on the Caribbean. No one questions that the United States is able to prevent any conflicts in the American hemisphere which would involve the world in any way or be more than passing difficulties, which in most cases could be settled by arbitration. If we join a league, therefore, it must be with a view to maintaining peace in Europe, where all the greatest wars have originated, and where there is always danger of war, and in Asia, where serious conflicts may arise at any moment. If we join a league, of course, we have in mind the danger of European conflicts springing up in such a way as to involve us in the defense of civilization, as has just happened in the war with Germany. But such wars as that are, fortunately, rare; so rare that one has never before occurred, and when the time came we took our part; but in the main our share in any league must be almost wholly for the benefit of others. We have the right, therefore, to demand that there shall be nothing in any agreement for the maintenance of the world's peace which is likely to produce new causes of difference and dissension, or which is calculated to injure the United States, or compel from us undue sacrifice, or put us in a position where we may be forced to serve the ambitions of others. There is no gain for peace in the Americas to be found by annexing the Americas to the European system. Whatever we do there we do from almost purely altruistic motives, and therefore we are entitled to consider every proposition with the utmost care in order to make sure that it does not do us injustice or render future conditions worse instead of better than they are at present.

Peace with Germany

"To me the whole subject is one of enormous difficulties. We are all striving for a like result; but to make any real advances toward the future preservation of the world's peace will take time, care, and long consideration. We can not reach our objects by a world constitution hastily constructed in a few weeks in Paris in the midst of the excitement of a war not yet ended. The one thing to do, as I said in the Senate some time ago, and that which I now wish above all others, is to make the peace with Germany – to make a peace which by its terms will prevent her from breaking out again upon the world; to exclude Turkey from Europe, strengthen Greece, and give freedom and independence to the Armenians and to the Jewish and Christian populations of Asia Minor; to erect the barrier States for the Poles, Czecho-Slovaks, and Jugo-Slavs; to take possession of the Kiel Canal; to establish the Baltic States and free them from Russia and restore Danish Schleswig to Denmark. Provision must be made for indemnities or reparation, or by whatever name we choose to call the damages to be exacted from Germany. We ought, in my judgment, to receive *Lusitania* claims and for the destruction of our ships by submarines – to go no further. But the enormous losses of England and Italy in shipping should be made good, either in money or in kind. Belgium must be restored and fully compensated for her terrible injuries.

Our Debt to France

"Finally there is France, and the indemnities to France ought to be ample and complete. The machinery taken from her factories should be restored. The cattle driven from her fields should be brought back. The debt of the free and civilized world to France is inestimable. Our own debt to her is very large. France has been our outpost and our bulwark. She has bared her breast to the storm and stood between us and the advancing hordes of Germany in the darkest days. It was France, aided by the small but gallant army of England, which checked the onrush of the Germans at the first battle of the Marne. It is her land which has been desolated and her villages and cities which have been destroyed. She should have compensation to the utmost limit in every way. Eternal justice demands it. But it is also to our immediate and selfish interest as a Nation that France should be made as strong as possible. Alsace and Lorraine she must have without question and without reduction, and other barriers if necessary to make her impregnable to German assault, for on the strength of France more than anything else, because she is the neighbor of Germany, rests the future peace of the world. We ought then to make this peace with Germany and make it at once. Much time has been wasted. The delays have bred restlessness and confusion everywhere. Germany is lifting her head again. The whining after defeat is changing to threats. She is seeking to annex nine millions of Germans in German Austria. She is reaching out in Russia and reviving her financial and commercial penetration everywhere. Her fields have not been desolated nor her factories destroyed. Germany is again threatening, and the only source of a great war is to be found in the future as in the past in Germany. She should be chained and fettered now and this menace to the world's peace should be removed at once. Whatever else we fought for certainly our first and paramount purpose was to defeat Germany. The victory over Germany is not yet complete. Let it be made so without delay.

The Desire to Bring Our Soldiers Home

"That which I desire above everything else, that which is nearest to my heart, is to bring our soldiers home. The making of a league of nations will not do that. We can only bring our soldiers home, entirely and completely, when the peace with Germany is made and proclaimed. Let that peace be made and I can assure the world that when the treaty of peace with Germany comes in this Chamber there will be no delay in the Senate of the United States. We must bring our men back from France – the men who fought the war, the men who made the personal sacrifice. Let us get them back at once, and to that end let us have the peace made with Germany, made now, and not delay it until the complicated questions of the league of nations can be settled with the care and consideration which they demand. What is it that delays the peace with Germany? Discussions over the league of nations; nothing else. Let us have peace now, in this year of grace 1919. That is the first step to the future peace of the world. The next step will be to make

sure if we can that the world shall have peace in the year 1950 or 2000. Let us have the peace with Germany and bring our boys home.

The U.S. is Called Upon to Depart from the Foreign Policies of George Washington

"This is the immediate thing to do toward the establishment of the world's peace, but there is an issue involved in the league constitution presented to us which far overshadows all others. We are asked to depart now for the first time from the foreign policies of Washington. We are invited to move away from George Washington toward the other end of the line at which stands the sinister figure of Trotsky, the champion of internationalism.

The Best Government in the World

"We have in this country, a Government of the people, for the people, and by the people, the freest and best Government in the world, and we are the great rampart to-day against the anarchy and disorder which have taken possession of Russia and are trying to invade every peaceful country in the world. For Lincoln's Government of the people, for the people, and by the people we are asked to substitute in the United States on many vital points government of, for, and by other people. Pause and consider well before you take this fateful step. I do not say that agreements may not be made among the nations which stand for ordered freedom and civilization, which will do much to secure and preserve the peace of the world; but no such agreement has yet been presented to us. We must beware of the dangers which beset our path. We must not lose by an improvident attempt to reach eternal peace all that we have won by war and sacrifice. We must build no bridges across the chasm which now separates American freedom and order from Russian anarchy and destruction. We must see to it that the democracy of the United States, which has prospered so mightily in the past, is not drawn by any hasty error or by any glittering delusions, through specious devices of supernational government, within the toils of international socialism and anarchy. I wish nothing but good to all the races of men. I hope and pray that peace, unbroken peace, may reign everywhere on earth. But America and the American people are first in my heart now and always. I can never assent to any scheme, no matter how fair its outward seeming, which is not for the welfare and for the highest and best interest of my own beloved people of whom I am one – the American people – the people of the United States. (Henry Cabot Lodge, *The Senate and the League of Nations*, New York: Charles Scribner's Sons, 1925, pp. 227-261.)

U.S. Senate Rejects Treaty of Versailles

Since President Wilson refused to accept any amendments or reservations to the treaty it was defeated in the U.S. Senate on March 19, 1920. It was apparent that the American people were not ready to give up their sovereignty to an international body.

In the presidential election of 1920, Warren Harding was elected by a large popular majority. The internationalists, who favored the League of Nations, were not happy with the U.S. Senate. It was apparent that a major change in America's views was necessary if global governance was ever to become a reality. They formed the Council on Foreign Relations in New York City in 1921. The main purpose of the Council was to persuade the elite in the media, academia and government to adopt an "international viewpoint."

The Council began promoting international cooperation and international institutions with jurisdiction over the nation-state and so-called global problems. The Council worked closely with the Carnegie Endowment for International Peace and other like-minded organizations such as the Foreign Policy Association. Tremendous resources were expended to change the viewpoint of the American people.

World War II Begins in 1939

On September 1, 1939, Hitler's forces rolled into Poland and World War II began with Germany at the center of the war once again. In August of 1940, Winston Churchill and President Franklin D. Roosevelt met at Placentia, Newfoundland. The two leaders drafted the Atlantic Charter. The document contained a set of common principles for providing economic cooperation between England and the United States. The groundwork was laid for America to be drawn into a second major European war. Once again President Washington's advice was ignored.

U.S. Declares War on Japan

On December 7, 1941, the Japanese war planes bombed Pearl Harbor. On December 8, 1941, Congress formally declared war on Japan. England joined the U.S. China declared war on the U.S., England, France and Italy on December 9, 1941. On December 11, 1941, Germany declared war on the U.S. In February of 1945, President Roosevelt, just entering his fourth term, traveled to the former Soviet Union's Black Sea resort of Yalta. He was joined by Winston Churchill and Joseph Stalin. The three leaders laid out plans for the post war world. President Roosevelt pushed for a new international organization to secure world peace. It was a modified version of the League of Nations proposed by President Wilson at Versailles.

Hitler's forces were collapsing in Europe. On August 6, 1945, a B-29 traveled to Hiroshima and dropped the first atomic bomb. On September 2, 1945, the Japanese surrendered.

Ratification of the United Nations Treaty

With the end of World War II, President Harry S. Truman led the U.S. in the formation of two international treaties that placed the U.S. in the forefront of world affairs on a permanent basis. The United Nations treaty was drafted at the San Francisco Conference between April 25 to June 26, 1945. It was signed on June 26, 1945 and submitted to the U.S. Senate on July 2, 1945. The Senate Foreign Relations Committee began its hearings on July 9, 1945 and ended two days later on July 11, 1945. The Senate ratified the treaty on July 28, 1945.

With two days of congressional hearings and with only 30 days of consideration, the U.S. adopted a treaty that placed the United States into a world organization. The people of America had no idea of what the U.S. Senate had done or what effect the treaty would have on the United States in the future.

The Origin of the United Nations

The U.N. organization was formulated by leading members of the Council on Foreign Relations who served in the United States State Department from 1942 to 1944. Leland M. Goodrich, Edvard Hambro and Anne Patricia Simons outlined the origin of the United Nations organization as follows:

"The Charter of the United Nations, signed at San Francisco on June 26, 1945, was a document with roots in the past and possibilities for the future that could only be imagined. From one point of view, it represented a stage in the historical development of mankind's social organization. Its provisions were based largely on past experience and found substantial if not exact expression in earlier instruments. From another point of view, however, the Charter was a commitment to purposes and principles the realization of which in the light of the changing world conditions might require substantial adaptation of institutional and procedural arrangements.

"It is necessary to think of the Charter not only as a treaty embodying the maximum limitations on a state's freedom of action, that nations at that stage of history and in the light of experience were prepared to accept as consistent with their national interests, but also as a constitutional document setting forth guidelines for future development. The exact nature of this development was to be determined not only by the Charter itself but also by the way in which the members of the United Nations interpreted these guidelines and made use of the Organization in dealing with the ever-changing problems of an ever-changing world. The Charter thus provided the constitutional basis for achieving international peace, security, and well-being, and pointed the way – but the ultimate verdict was to rest with the actors themselves.

The Need for a General International Organization

"The idea of an international organization to keep the peace, worldwide in the scope of its activity, found its first practical expression in the League of Nations.

"Back of the League, however, was a considerable experience with institutions and procedures of more limited scope which had as their purpose the prevention of war and the promotion of other common purposes by organized international cooperation.

"At the end of World War I, the League of Nations was established, largely on the initiative and through the leadership of Woodrow Wilson. Wilson believed that the old system of balance of power had been discredited by the failure of diplomacy to prevent World War I and that the only dependable guarantee of peace was to be found in the willingness of peace-aspiring nations to use their combined forces to restrain aggression. We know that the League failed in its major purpose, but we do not know what would have happened if one of Wilson's major assumptions – that the United States would be an active member – had materialized. Without the United States as a member, the League was congenitally and fatally weak; although it achieved some useful results and demonstrated the need for organized international cooperation, it was not able to survive the holocaust of World War II.

A Tribute to the League of Nations

"It was a tribute to the validity of the League idea, however, that almost from the beginning of World War II, thought was given in responsible government circles to establishing an international organization to keep the peace once the war ended. In their Declaration of Principles, known as the Atlantic Charter, of August, 1941, President Roosevelt and Prime Minister Churchill expressed their hope 'to see established a peace which will afford to all nations the means of dwelling in safety within their own boundaries, and which will afford assurance that all the men in all the lands may live out their lives in freedom from fear and want.'¹By adhering to the Declaration by United Nations of January 1, 1942, the states at war with the Axis Powers, including China, the Soviet Union, the United Kingdom, and the United States, subscribed to the purposes and principles set forth in the Atlantic Charter. Early in 1942, the Advisory Committee on Post-War Foreign Policy was set up in the U.S. State Department to consider international problems that would confront the United States at the conclusion of hostilities. By June, attention was explicitly focused on the problem of a permanent international organization, which soon became a major concern of the committee, as well as of Secretary of State Hull and President Roosevelt.

Cordell Hull Seeks to Establish an International Organization

"During 1942 and 1943, official thinking and policy formulation in Washington had so far developed that Secretary Hull was ready to take advantage of the meeting of Allied foreign ministers in Moscow in October, 1943, to secure a firm commitment to the idea of establishing an international organization to keep the peace. By the Moscow Declaration of October 30, 1943, the governments of China, the Soviet Union, the United Kingdom, and the United States declared 'that they recognize the necessity of establishing at the earliest practicable date a general international organization, based on the principle of the sovereign equality of all peace-loving states, and open to membership by all such states, large and small, for the maintenance of international peace and security.'

Dumbarton Oaks Conference

"The making of a charter to give effect to the Moscow commitment was a complex and lengthy process. In fact, the work of preparation began in the U.S. State Department as early as June, 1942, and continued into the summer of 1944. The Tentative Proposals, the product of this preparatory work, were accepted by the President and by congressional leaders of both parties as the basis for discussion in the Dumbarton Oaks Conversations of August 21-October 7, 1944. The draft which finally emerged reflected the thinking of many minds and had bipartisan support.

"It was considered essential to secure the preliminary agreement of the four major powers at the expert level on the proposals to be submitted to a conference of allied nations. The Dumbarton Oaks Conversations took place in two phases: the first, with representatives of the Soviet Union, the United Kingdom, and the United States participating, extended from August 21 to September 28; the second, to which the Republic of China, the United Kingdom, and the United States were parties, lasted from September 29 to October 7. These negotiations resulted in agreed-upon proposals which, though incomplete, represented substantial acceptance of United States suggestions, modified in some respects by the ideas of other participants. Where unresolvable differences appeared in the course of negotiations, they were left for discussion and resolution at a higher political level.

Dumbarton Oaks Proposals

"The Dumbarton Oaks Proposals did not cover such important questions as voting procedure in the Security Council and the role of the proposed international court. They did not deal with other matters of a technical nature – such as privileges and immunities, registration of treaties, and arrangements for non-self-governing territories. The Proposals, however, gave a clear indication of the kind of organization the major powers had in mind and would presumably strongly support at the forthcoming conference. In many respects, it was to be an organization similar to the League of Nations it was to replace.

"Following publication of the Dumbarton Oaks Proposals, further negotiations and discussions were necessary to fill some of the gaps left by the Proposals and to prepare the way for subsequent agreements. At the Crimea (Yalta) Conference of February 3-11, 1945, the heads of government of the Soviet Union, the United Kingdom, and the United States agreed on the formula governing Security Council voting procedure, which was subsequently included in the proposals submitted to the governments invited to the San Francisco Conference. Accord was also reached on the basic principles governing the establishment of a trusteeship system. It was also decided to call a conference of the United Nations in San Francisco on April 25, 1945 "to prepare the Charter of such an organization, along the lines proposed in the informal conversations at Dumbarton Oaks," and that invitations should be extended by the United States on behalf of the Sponsoring Governments to those states that had declared war on Germany or Japan by March 1, 1945 and had signed the Declaration by United Nations.

Two Conferences Prepare Elite for U.N. Charter

"Two other conferences held before San Francisco helped to lay the groundwork for the 1945 Charter. At the Mexico City Conference of the American Republics, February 2-March 8, 1945, the United States gained support for the Dumbarton Oaks Proposals, and a hemispheric position on the question of regional security was formulated. The meeting of the United Nations Committee of Jurists, April 9-20, 1945, prepared a draft statute of an international court of justice to serve as a basis for discussion at San Francisco.

Delegates Meet in San Francisco

"The final stage in the making of the Charter was the United Nations Conference on International Organization (UNCIO) which met at San Francisco, April 25-June 26, 1945. Invitations to the Conference were issued on March 5 by the government of the United States in the names of the four Sponsoring Governments, to the following: Australia, Belgium, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Cuba, Czechoslovakia, Dominican Republic, Ecuador, Egypt, El Salvador, Ethiopia, France, Greece, Guatemala, Haiti, Honduras, India, Iran, Iraq, Lebanon, Liberia, Luxembourg, Mexico, the Netherlands, New Zealand, Nicaragua, Norway, Panama, Paraguay, Peru, the Philippines, Saudi Arabia, Syria, Turkey, Union of South Africa, Uruguay, Venezuela, and Yugoslavia. Poland, though a signatory of the Declaration by United Nations, was not invited because of the failure of the Sponsoring Governments to agree on the government to be recognized. In the invitation it was suggested that the Conference consider the Dumbarton Oaks Proposals 'as affording a basis' for the proposed charter. It was also indicated that in the event that the invited governments desired 'in advance of the Conference to present views or comments concerning the proposals,' the government of the United States would 'be pleased to transmit such views and comments to the other participating Governments.'

"The Conference convened at San Francisco on April 25, 1945, with all the sponsoring and invited states represented. Subsequently, Argentina, the Byelorussian Soviet Socialist Republic, Denmark, and the Ukrainian Soviet Socialist Republic sent representatives on invitation of the Conference, bringing the total number of participants to fifty.

Agenda for the Conference

"The agenda of the Conference, approved at a meeting of the heads of delegations on April 27, 1945, included 'the Dumbarton Oaks Proposals, as supplemented at the Crimea Conference, and by the Chinese proposals agreed to by the Sponsoring Governments, and the comments thereon submitted by the participating countries.'" It was also agreed to set a time limit of one week for submission of proposed amendments and comments; this limit was not to apply, however, to trusteeship matters.

"The Conference was organized into general committees, commissions, and technical committees. The general committees included the Steering Committee, consisting of the chairmen of delegations; the Executive Committee, consisting of the chairmen of the delegations of the four Sponsoring Governments, France, and nine other governments; the Coordination Committee, composed of a representative of each state represented on the Executive Committee; and the Credentials Committee.

"The commissions, consisting of delegates from all participating governments, were four in number: Commission I (General Provisions), Commission II (General Assembly), Commission III (Security Council), and commission IV (Judicial Organization). Each commission had the tasks of developing general principles for the guidance of its technical committees, considering the recommendations of its technical committee and the relationship of these recommendations to those of other commissions, and of recommending to the Conference in plenary session 'proposed texts as parts of the Charter.'

Technical Committees

"The technical committees were set up under the commissions to consider and formulate recommendations on the various parts of the agenda referred to them. Each committee consisted of a delegate from each government participating in the Conference. The committee structure and assignments, as related to the commissions, were as follows (the roman numeral indicating the commission to which the committee reported):

"Committee I/1, Preamble, Purposes and Principles; Committee I/2; Committee II/1;

Committee II/2; Committee II/3; Committee II/4; Committee III/1; Committee III/2; Committee III/3; Committee III/4; Committee IV/1; Committee IV/2; Membership, Amendment, and Secretariat; Structure and Procedures; Political and Security Functions; Economic and Social Cooperation; Trusteeship System; Structure and Procedures; Peaceful Settlement; Enforcement Arrangements; Regional Arrangements; International Court of Justice; Legal Problems

"The technical committees followed no uniform procedure in the performance of their functions. In one committee, the work of examination and detailed consideration was turned over to a subcommittee whose recommendations were then discussed and acted upon by the full committee. Another committee considered and gave answers to general questions suggested by detailed proposals and comments, asked a drafting subcommittee to translate the general conclusions into specific texts, and then considered and acted upon the texts proposed. Still another committee considered the suggested amendments to the Dumbarton Oaks Proposals, indicated those it approved with respect to the general idea, and then asked a drafting subcommittee to prepare a text which was then submitted to the committee for final decision. Where committee assignments overlapped, the Steering Committee or the Executive Committee decided which technical committee should consider the matter. This, however, did not prevent different committees from considering the same question; to avoid and resolve conflicts, various devices were resorted to, including the establishment of joint subcommittees and appeal to the Steering and Executive committees.

"The texts recommended by the technical committees were submitted to the commissions for approval, usually a purely formal proceeding. They were also referred to the Coordination Committee, which, with the assistance of the Advisory Committee of Jurists, reviewed the texts with an eye to improving their phraseology, securing uniformity of terminology, eliminating contradictions and inconsistencies, and obtaining the best arrangement of the substance of the proposed charter. The Coordination Committee could, on its own responsibility, make no change of a substantive nature, though it might ask a technical committee to consider a proposal involving such a modification. In general, the function of the Coordination Committee was to put the pieces together into one document, without modifying the decisions of the technical committees, except with their consent. The draft of the Charter as thus prepared was then submitted to the Steering Committee for its approval, and finally to the Conference in plenary session. The signing of the Charter by the delegates on June 26, 1945, followed final approval by the Conference on the previous day.

An Assessment of the San Francisco Proceedings

"The procedure in the final drafting of the Charter at San Francisco offered ample opportunity for discussion and, more particularly, gave the delegates of

those states not represented in the Dumbarton Oaks Conversations the opportunity to express their points of view. Furthermore, decisions were taken by a two-thirds vote of those present and voting. This process, of necessity, however, operated within a political context which gave to the major powers, because of their leading role in the conduct of the war and their indispensability to the success of the proposed organization, a measure of influence on the decisions that the smaller powers could not hope to equal. Thus, freedom of discussion, equality of voting power, and the possibility of decisions being taken by a modified majority did not in fact deprive the great powers of an effective veto. Faced with the possibility that a particular decision would be unacceptable to one of the major powers (more particularly, the United States or the Soviet Union) who might for that reason refrain from joining the Organization, members of the Conference were not prepared to force the issue. Effective control over important the heads of the delegations of China, France, the Soviet Union, the United Kingdom, and the United States (the 'Big Five') assisted by their chief advisers.

"Notwithstanding the effective 'veto power' that a great power possessed, there were in fact fairly important questions on which the smaller nations were able to press their points of view with considerable success in the face of resistance by the major powers, especially if the latter were not in full agreement among themselves. This was especially true of questions relating to the role of the General Assembly and the responsibilities of the Organization in the economic and social fields. While it may be argued that concessions by the major powers were more apparent than real, it would seem to be a justified conclusion, particularly in the light of the subsequent development of the Charter, that the smaller powers did succeed in introducing important changes in the Dumbarton Oaks Proposals, even as modified by the amendments proposed by the Sponsoring Governments themselves.

A Document Full of Inconsistencies and Ambiguities

"While the organization and procedures of the Conference were reasonably effective in achieving full discussion and fair consideration of the many proposals submitted, they were not equally successful in producing a well-drafted document free of inconsistencies and ambiguities. In fact, the highly complex committee structure, the necessity of meeting deadlines, and the decision to have five official languages – English, French, Spanish, Russian, and Chinese – made the task of putting the decisions of the Conference into good technical form a Herculean one. Thus, there was not time at the end for technical committees to reconsider decisions which, in the light of the total perspective of the Charter, appeared open to serious question. In addition the task of translating the Coordination Committee's final English draft into the other four languages was carried out under pressures hardly conducive to technical perfection.

Organization of the United Nations

"The Charter was signed on June 26, 1945. Of necessity, an uncertain length of time was to elapse before the Charter would enter into force and the organs of the United Nations could be established and begin to function. It was recognized at San Francisco that a vast amount of preparatory work had to be done if the Organization was to function smoothly from the beginning. Consequently, at the time of the signing of the Charter, interim arrangements were agreed to that established a Preparatory Commission 'for the purpose of making provisional arrangements for the first sessions of the General Assembly, the Security Council, the Economic and Social Council, and the Trusteeship Council, for the establishment of the Secretariat, and for the convening of the International Court of Justice.' The Commission was to consist of one representative of each government signatory to the Charter. When not in session, its functions and powers were to be exercised by an Executive Committee, composed of the representatives of those states that had constituted the Executive Committee of the Conference. The Commission was to be assisted by an executive secretary and such staff as might be required.

"The Executive Committee, holding its first meeting in London on August 16, 1945, prepared a report, including drafts, that served as the basis of the Preparatory Commission's work. The final report of the Preparatory Commission, adopted on December 23, 1945, included specific recommendations; draft proposals integrally connected with them, such as the draft provisional staff regulations and the provisional rules of procedure of the principal organs; a number of reports and memoranda setting forth the views of the Commission and of special expert bodies; and certain supplementary materials, including extracts from summary records of committee meetings.

The U.N. Becomes Operational

"The Charter entered into force on October 24, 1945, when instruments of ratification had been deposited by the Republic of China, France, the Soviet Union, the United Kingdom, and the United States, and by the majority of remaining signatories, as provided in Article 110. The General Assembly held its first meeting at Central Hall, Westminster, London, on January 10, 1946, with representatives of all fifty-one members present. The Security Council initially convened on January 17, the nonpermanent members having been elected by the Assembly on January 12. The Economic and Social Council met for the first time on January 23. The Trusteeship Council was unable to meet until March 26, 1947, because of delay in the conclusion and Assembly approval of trusteeship agreements. The first session of the International Court of Justice was held on April 3, 1946. On February 1, Trygve Lie was appointed the first Secretary-General by the Assembly, on recommendation of the Security Council. Except for the Trusteeship Council, the United Nations was a going concern early in 1946'

although the final decision on the location of permanent headquarters was not made until December 14.

The U. N. and the League of Nations Compared

"The new organization for which the Charter provided was in many respects like the League of Nations. It was based on the principle *of* voluntary association of independent sovereign states for the achievement of common purposes. Like the League, it was composed initially of nations victorious in a world war, and while the effort was made to disassociate it to some extent from the peace settlements, there was no avoiding the conclusion that the peace it was expected to keep would, to a large extent, be the peace made by the victorious powers in the war about to end. The structure of the new organization was similar to that of the League: a deliberative organ including all members, quasiexecutive organs, a court, and a secretariat. While the Charter provided for three councils instead of the Covenant's one, it must be borne in mind that the League Permanent Mandates Commission had functions similar to those of the Trusteeship Council, and that the Economic and Social Council for which the Charter provided was anticipated in the recommendations of the Bruce Committee in 1939.

"There were, however, important differences, at least in emphasis, between the organization provided for by the Charter and that of the Covenant. While both documents emphasized the maintenance of peace as a primary objective, the Charter gave much more recognition to the importance of international cooperation in dealing with economic and social problems, and to the need for safeguarding basic human rights if the world was to be spared another catastrophe. This new emphasis was quite understandable in the light of the role that economic and social dislocations had played in events leading to World War II, recognition of the increased responsibility of governments in the economic and social fields, and the extent to which the denial of human rights had been associated with aggressive regimes.

"An even more striking difference, however, was the approach taken by the Charter to the problem of keeping the peace. Whereas the Covenant had emphasized the legal approach to the prevention of war by placing specific obligations upon members, the Charter approach was essentially political, since in the last analysis the measures to be taken and their effectiveness were made to depend on the readiness of the major military powers to cooperate in defense of common interests. Furthermore, unlike the Covenant, the Charter in effect recognized that the new organization could not be effective in keeping the peace if challenged by a great power. In that event, members would be thrown back on their own resources, supplemented by such cooperative arrangements as might be worked out in the name of collective self-defense.

Functions and Powers of U.N.

"The Charter also appeared to differ from the Covenant in its more detailed definition and sharper differentiation of functions and powers of the various organs. Whereas the Covenant had defined the functions and powers of the Assembly and Council in the same general terms though according specific duties to each, the Charter – on the assumption that the General Assembly was an organ of deliberation and the Security Council an organ of action – defined in considerable detail the functions and powers of each, emphasizing the primary responsibility of the Council for making specific decisions to maintain or restore peace and security, and the responsibility of the Assembly to develop and recommend general principles of cooperation for strengthening peace and security. To be sure, this differentiation of function appeared to be clearer under the Dumbarton Oaks Proposals than under the Charter as finally adopted. At San Francisco, certain provisions were accepted which blurred the distinction the Dumbarton Oaks conferees had sought to make, and which laid the basis for subsequent extensive development of the responsibilities and powers of the General Assembly in the maintenance of peace and security.

"Another important difference between the Charter system and that of the League concerned the role accorded to the international organization in dealing with non-self-governing territories. Apart from a general assurance of just treatment to indigenous populations, the Covenant was concerned with those colonial territories which Germany and the Turkish empire had been forced to relinquish and which the victorious allied powers agreed to place under the League mandates system. In regard to these territories it was almost wholly concerned with eliminating abuses, and only in the case of Class A mandated territories was independence envisaged. The Charter approach is quite different. Members undertake to work for the political, economic, and social development of the inhabitants of all territories under their administration, and, in the case of territories under trusteeship, they assume strong obligations and agree to accept a larger measure of international supervision than under the League mandates system. Furthermore, by making the General Assembly responsible for performing United Nations supervisory functions, the Charter seeks to give assurance that members administering trust territories will not be allowed to escape their obligations. Recognition by members of 'the principle of equal rights and self-determination of peoples' (Article 1[2]) is another peg upon which proponents of independence for non-self-governing people have been able to hang their case.... (Leland M. Goodrich, Edvard Mabro and Anne Patricia Simons, *Charter of the United Nations: Commentary and Documents*, New York: Columbia University Press, 1969, pp. 1-12.)

Dumbarton Oaks Proposal

Inasmuch as the Dumbarton Oaks Proposals were the foundation of the U.N. Charter adopted at San Francisco in 1945, it is important to look at the proposals. These proposals were drafted by Secretary of State Cordell Hull and key members of the U.S. State Department between June 1944 and August 21, 1944. The Dumbarton Oaks Proposals are more revealing than the U.N. Charter and contain a clearer view of the international objectives of the foreign policy elite in New York City and Washington, D.C. The proposal states:

Purposes

"The purposes of the Organization should be:

"1. To maintain international peace and security; and to that end to take effective collective measures for the prevention and removal of threats to the peace and the suppression of acts of aggression or other breaches of the peace, and to bring about by peaceful means adjustment or settlement of international disputes which may lead to a breach of the peace;

"2. To develop friendly relations among nations and to take other appropriate measures to strengthen universal peace;

"3. To achieve international cooperation in the solution of international economic, social and other humanitarian problems; and

"4. To afford a center for harmonizing the actions of nations in the achievement of these common ends. (Ibid, p. 665.)

A Center for Harmonizing the Actions of Nations

The Dumbarton Oaks Proposals called for 'appropriate measures to strengthen universal peace;' 'international cooperation' and 'a center for harmonizing the actions of nations'. The real purpose of the U.N. was to nudge the world closer to global governance. The movement for a global community of nations was instituted in 1919 with the League of Nations. It was gaining momentum in the early 1940s. Amos J. Peaslee, a prominent attorney delivered an interesting address on August 25, 1942 before the International Law Section of the American Bar Association in Detroit, Michigan. His address was entitled, "A Permanent United Nations." He stated:

"It may be accepted as a major probability that an effort will be made at the conclusion of this war – more determined than at Vienna in 1815, or at Paris in 1919, or at any of the Pan American Conferences – to set up stronger permanent organs of international government.

"Whether the effort should be undertaken immediately upon the conclusion of hostilities in the glow of unity and victory, or whether it should be delayed until after a 'temporary relief' and 'cooling off' period, is debatable; but such a prospect is forecast by declarations of leading spokesmen among the United Nations and neutrals as well.

THE COMMON CAUSE

"The cause which now binds the United Nations is to 'defend life, liberty, independence and religious freedom, and to preserve human rights and justice in our lands as well as in other lands'. It is not dissimilar to the ancient 'hue and cry' against highwaymen, pirates and arbitrary monarchs.

"Germany, as a government, stands before the world as the modern symbol of what Secretary Hull describes as 'barbaric savagery and organized wickedness.'

"Frederick the so-called 'Great' in his letters to Podewils started Germany on her career as a nation with this advice:

"'If there is anything to be gained by it we will be honest; if deception is necessary let us be cheats.'

"The War Book of the German General Staff reads:

"'International law is in no way opposed to the exploitation of the crimes of third parties, assassination, incendiarism, robbery and the like.'

"And Prof. Banse, who was granted a special Chair of Honor at Hanover in the Spring of 1935, writes:

"'War is * * * the ground whereon the human soul can most richly and most strongly reveal itself, bursting forth from deeper springs and more variously than in any single achievement of learning or art.'

"The United Nations deny that those precepts represent either morality or the law which is to govern the modern world. They are determined to tolerate the ghastly medieval crimes born of such nonsense no longer. It may be no more possible to abolish war and war worshippers than to abolish crime and criminals, but it is possible to outlaw and to control them through permanent organs of the International Community strong enough to do that job.

"We would prefer not to deny to Germany the right of nationality, or even to a corporation. But we do deprive habitual criminals of the right to citizenship. We dissolve unlawful corporations. And if Germany must be governed for a time after this war by territorial administrative organs it will be far better that it be done by the United Nations as a unit than by any concert of separate powers.

Permanent organs of World Government are needed for other purposes, too. Not only Axis Powers but many other national governments, including our own, have enlarged their peace time functions into a vast control of domestic and international economy. They have become tremendous business enterprises. No existing organs of Government have any possibility of dealing adequately or fairly with the civil controversies which are bound to increase with that expansion.

WAR TIME ORGANS

"During hostilities a certain amount of United Nations' machinery has already been and will further be, erected. It is in a sense "governmental" machinery, but it is designed to subdue by military force the international outlaws who are spreading terror and destruction under the cloak of national power. Such war organization is not well equipped for permanent peacetime purposes.

WRITTEN OR UNWRITTEN CONSTITUTION?

"Delegates to the Post War Convention on Permanent Organization will no doubt come from neutral as well as belligerent governments. The preliminary questions will be:

"(1) Shall the World Community attempt to adopt a single written constitution for future government of the inter-relations of nations and peoples of the world?

"(2) If not, what further isolated organs of international government – executive, judicial or legislative – shall be erected?

"I favor a written constitution. We should not envisage a federation exactly paralleling our own. The Society of Nations has a unique pattern. It requires its own peculiar organs of government.

"But if we accept the Atlantic Charter principle that nationalities and national rights are to be preserved and protected, must we not face fearlessly the concept of a "super sovereignty ?"

"Every organ of international government – and we already have many of them – exercises in a sense 'super-sovereign power.' By the Pact of Paris, which Germany was the first nation to sign, the leading nations have already renounced unrestricted sovereignty – if it ever existed.

"President Wilson's first draft of the League Covenant employed the word 'Constitution' in its preamble. Happier results might have followed if the final document had risen to the dignity which that word imports, and if there had been less timidity than in admitting the necessity for adequate instrumentalities.

"A complete written constitution for the United Nations seems desirable for several reasons:

"(1) It could declare at the outset accepted sovereign rights which may not be infringed..

"The American Institute of International Law made a noble first draft of possibly acceptable clauses in its 'Declarations of the Rights and Duties of the Nations,' adopted as part of the 'Recommendations of Habana' in 1916. The American Law Institute has been working on a similar project for a draft 'International Bill of Rights.'

"The post war World Convention will do well to study those documents. An official declaration of inviolate national rights should go far in removing hesitation to entrust more power to international governmental institutions.

"(2) A written World Constitution could declare precisely what permanent organs of world government are to be sanctioned and clothed with effective powers and given adequate means of financial self support.

"We do not underestimate the difficulties or the dangers of creating permanent self sustaining organs of World Government. The practical difficulties can be overcome. The dangers of not acting boldly are more serious than the dangers of doing so.

"In the supreme hour of our own national power which will exist when the present hostilities cease we can make no nobler gift to humanity than to insist, as a condition of meeting the clamoring demands which will be made upon us, that the International Community shall build a political order which will enable it to share the blessings which we have enjoyed under functioning constitutional government.

"(3) 'Written Constitutions containing bills of rights have grown apace among nations in recent years. The growth is significant in indicating public confidence in them.

"About 95% of the national sovereignties now have written constitutions. Even the British Foreign Office, in a little observed announcement in 1938, published a volume purporting to set forth the written "Constitution of the British Empire." It reproduces and cites in about 650 pages approximately 300 parliamentary statutes, orders in council, letters patent, royal instructions, and other documents as constituting the British Empire's Constitution. It is an Empire document. It omits Magna Charta, the Bill of Rights, and other documents which we usually associate with the "British Constitution." It hardly employs the term "Constitution" in the sense elsewhere used in the world, but it is probably the first time that the British Foreign Office has sanctioned the labeling of any particular documents as constituting a written Constitution of the British Empire.

"If a written Constitution is to be adopted by the United Nations it should resemble in form and extent more nearly the great majority of other national Constitutions but it must necessarily deal with the peculiar problems of World Government and it will certainly take account of experimental organs which already have been tried.

LEGISLATIVE ORGANS – INTERNATIONAL CONFERENCES, MULTILATERAL TREATIES, A WORLD CONGRESS

"The span of the natural lives of the delegates to the next Peace Conference will be insufficient to 'settle' all of the problems which will be presented to them. If they attempt to deal with all of them they will tire and err. They will crystallise results where what is needed is constant legislative study and review.

"The creation of a permanent World Congress would not be a radical departure from the procedure already experimented with in the League of Nations and in the Pan American Union, except for the present requirement that international "legislation" – which now usually takes the form of resolutions or multipartite treaties – must be approved by each government affected by it. The present system is as though a domestic law were only operative against particular citizens who vote expressly in favor of the law; or as though each act of our Congress were required to be ratified by each state affected by the Act.

"If a permanent Congress is created, and if it is not confined to mere diplomatic representatives of governments, it may be an easy step to grant to such a legislative body the power to promulgate its own international statutes, freed from the necessity of national ratification.

EXECUTIVE ORGANS – INTERNATIONAL ADMINISTRATIVE BODIES, SANCTIONS, NATIONAL ARMAMENTS, A WORLD POLICE

"The United States already participates in at least 29 international administrative agencies. It would not be particularly revolutionary to place those various organs, as well as some others, under control of a permanent organization of the United Nations.

"The chief difficulty with the Versailles Treaty was not the provisions which it contained, but the fact that they were not enforced and that no adequate organs of World Government were provided to enforce them.

"The sanction provisions of the League Covenant called for the application by *individual nations* of their separate military establishments and economic powers. It was as though the States of Michigan and Minnesota were asked to agree to intervene *as state governments* in any controversy between the States of Rhode

Island and Massachusetts. As coordinate political units they would properly hesitate to undertake that; and their efforts, if undertaken, would be resented. Nations, as such, should not be called upon to meddle in the disagreements of other nations, nor to put down public international brawls and breaches of the peace, nor to apprehend, confine and punish international outlaws. That function belongs to the World Community.

"Our own Constitution and most federal national Constitutions, quite wisely omit any express provisions whatever upon the sensitive issue of sanctions and the question of right of-withdrawal.

"The United Nations, as a functioning permanent organism, should itself be provided with adequate machinery for the preservation of the public peace and the promotion of the common welfare. Let it confine itself to a few very simple delegated powers.

"National armaments are not an obstacle to, nor an adequate excuse for delay in, the creation of adequate executive organs. When we founded our own Federal Government we did not abolish military establishments of the States. We did not prohibit citizens from carrying arms. On the contrary we inserted a provision expressly guaranteeing right to 'keep and bear arms,' and we approved the maintenance by States of a 'well regulated militia.' In so far as our Federal Constitution is concerned a state may maintain whatever military establishment it chooses. A citizen may keep a whole arsenal of firearms if he wants to do it. We find it cheaper and more effective to support a police force but that is our legal right, though we may not use either the militia or the firearms to commit aggression against a neighbor.

JUDICIAL ORGANS – WORLD COURTS, CLAIMS COMMISSIONS, MIXED ARBITRAL TRIBUNALS, CONCILIATION AND ARBITRAL PROCEDURE

"Fortunately we have a hundred and fifty years of experience with international judicial procedure in the modern world. We have operated under many claims commissions, and arbitral tribunals. Indeed the torrent of conciliation, arbitration and compulsory adjudication treaties which descended during the past thirty years has confronted us with an "*embarrass de choix*" rather than with any dearth of paper judicial machinery.

"In so far as the 'optional clause' of the statute creating the Permanent Court of International Justice became effective, it provided a method of procuring a judicial determination of an international controversy whether or not the defendant government chose to be sued respecting a particular issue.

"The procedure for selecting the members of such a court should be simplified. Compulsory jurisdiction should be accorded to it; *and a complete system of lower*

courts, sitting regularly or riding on circuit in various parts of the world, should be created.

"Lawyers are not impressed with the objection occasionally offered that the founding of permanent International Courts must await the codification of International Law. If that theory had been followed in municipal law there would still be no domestic courts in many of the most highly civilized states and nations of the world.

A Self-Contained World Authority

"The International Community, if we accept the statements of the leaders who have spoken, has again determined to endeavor to organize itself on a more permanent basis.

"Even if that were a prospect to be feared – which surely it is not – the alternative is far more dangerous.

"Such organization should be undertaken through a written Constitution which should define and reserve to the nations their proper inviolate national rights.

"The Constitution should allot to the International Authority adequate powers and permanent organs of government to perform the functions which properly belong to it. It should vest in the Authority some means of financial self-support.

"If the Post War Conference creates a self-contained World Authority and not a mere concert of powers or weak confederation, it will avoid the errors of 1815 and 1919.

"The basic problems of the Post War Conference on Permanent Organization will – if that conference is happily guided – be problems of Constitutional and International Law. (*Vital Speeches of the Day*, Vol. 8, pp. 734-736.)

A Proposal for a Definite World Organization

It would appear that Peaslee outlined the objectives of the 'International Community' several years before the U.N. Charter was drafted.

Mr. Peaslee was not the only one talking openly about the goals of the elite internationalists who favored global governance. On January 7, 1943 Harold E. Stassen, Governor of Minnesota delivered an address entitled, "World Affairs: A Proposal of a Definitive United Nations Government" before a joint session of the Minneapolis and St. Paul Branches of the Foreign Policy Association. Stassen would later travel to San Francisco and become one of the signatories to the U.N. Charter. In his address, Governor Stassen stated:

"In responding to your invitation to speak to you this evening on the subject 'World Affairs,' I realize that you are all familiar with the consistent position that Senator Ball and I have taken upon foreign policy throughout these past years.

"Thus, rather than spending our time in general statements about the advisability of world cooperation, I will proceed to discuss with you a very specific pattern for international action.

"I will present these definite suggestions, not with the attitude that these are the answers, but rather to stimulate a search for the best answers, to encourage a frank discussion of means and methods, and to expose my own tentative thoughts to helpful criticism and clarification.

"It is important that we be specific. Perhaps the greatest present deterrent to increasing world cooperation is a tendency on the part of many people to admit its desirability, to acknowledge the correctness of general statements of the subject, but to say it is impossible to work out.

"History also tells us that the very successful organization structure of our own United States of America came about through a very forthright discussion of many different suggestions and proposals. This was carried on even during the War for Independence, and extended through the years of the early association of the thirteen colonies. The varied ideas were finally fitted together in the Constitutional Convention in a very earnest session of men of many viewpoints. It is my proposal that we should contemplate, and begin to plan now, for a definite continuing organization of the United Nations of the World. China, Russia, the British Commonwealth of Nations, the United States of America and all of the smaller United Nations should participate in this governmental structure.

Citizens of the World

"On this basis, the citizens in this room, the citizens of this state in the years ahead would be not only citizens of Minnesota, not only citizens of the United States of America, but also citizens of the United Nations of the World.

A World Parliament

"The key governmental should be a single house parliament. Representation and voting power in this single house parliament could be based upon a formula which would take into consideration the numbers of the literate population of the respective nations, the amount of the contribution of the respective members to the expenses of the joint representatives in the parliament would be selected in each nation in general accordance with the means by which the people select the members of their own legislative body. In the case of this country, some could be elected on the federal basis throughout the country, and some could be elected within groups of states to represent the states of the Union. In case of the British

Commonwealth of Nations, some could be selected on a basis to represent His Majesty's government, and others on a basis to represent the individual members of the British Commonwealth of Nations, such as the Dominion of Canada, Australia and New Zealand.

"This United Nations Parliament would then select a Chairman of the United Nations Council who would in turn select seven members for his Council from the Parliament and submit them to the Parliament for approval.

"The Council would thereupon become the executive side of the United Nations Government, and the Parliament, of course, the legislative branch, with a close inter-relationship and continuing responsibility and accountability of the executive to the Parliament.

Seven Major Jurisdictions

"This United Nations government should then function in seven major categories, each under one of the United Nations Councilmen.

"FIRST: To establish temporary governments over the Axis Nations, preferably using citizens of the United Nations whose ancestry goes back to the particular Axis nation. Under these temporary governments, the Axis Nations should be entirely disarmed, their criminal leadership punished for their acts of horror and betrayal of civilization. But no wholesale reprisals against innocent civilian populations should be countenanced.

"SECOND: To administer the great international airports and airways of the future. We all recognize the significant development in the air that will follow this war. Wendell Willkie's trip around the world, 30,000 miles, all in one airplane and with one crew, leaving this country from New York in one direction and arriving back in Minneapolis from another direction, right on schedule, dramatically emphasized these potentialities. The extreme advances taking place in designing and building aircraft, and the thousands and thousands of skilled young fliers and navigators in many nations, will bring about a very unusual development in the air. The establishment of the 'right of flight,' 'ruler of the air,' air traffic controls, elevation channels for flight in different directions, with various types of planes, the coordination of weather data, radio beams and communications and the maintenance of safe and stable airports all should be a major activity of the United Nations of the World.

"THIRD: To administer the gateways to the seven seas. This likewise should be a vital function of United Nations Government. Shipping and the use of the seas will be of tremendous importance. The development in the air will not lessen its importance. Rather, this merely adds another factor in a widening range of total travel. transport and communication.

"FOURTH: To increase trade between the peoples of the world. Only in this way can the general standards of living throughout the world be gradually improved. Only in this way can those countries with high standards of living maintain high standards of living without war. This does not contemplate a sudden change to universal free trade, but it does contemplate embarking upon a definite trend toward increased world trade. It will involve assurances by our government to agriculture that the total percentage of agricultural export and import will be maintained at approximately the same percentage in the increased total trade. Important factors in the world balance of trade would be increased tourist trade and increased capital investments in undeveloped countries from this and other countries with large capital resources. Stifling obstructions or heavy dumping of goods should both be avoided, as both break down economic systems and cause world distress.

"FIFTH: To increase the literacy of the people of the world. This should be approached, not as any Utopian, grandiose idea, but with the definite realization that the ability to read and write is the key to much of the progress of man.

"SIXTH: To establish a world code of justice and a United Nations Court to administer that code. The code of justice should obviously include provisions protecting minorities, preventing religious persecution and abolishing slavery. The court should be named by the Supreme Courts of the member nations. The Attorney General or Counsel General would be one of the United Nations councilmen.

"SEVENTH: To establish a United Nations Legion, consisting of units of air strength, efficient modern naval forces and highly mobilized, mechanized land divisions. The United Nations Legion would enforce the code of justice, support the administration of international airports, airways, sea gateways and insure the continued disarmament of the Axis nations and of outlaw areas. It would be backed by the armed strength maintained by the individual members of the United Nations including our own country.

Seat of Government

"The seat of administration of many of these functions might well be some point like Panama, readily accessible by sea and air to all continents, world-wide in its very atmosphere, and yet easily defended from attack.

"Some question may be raised as to the justice of having a United Nations Government administer so many of these activities on a world-wide basis, including thereby administration of these matters over nations that are not members of the United Nations group.

"It seems to me that this will be basically no different from the fact that we have in our midst many individual men and women who are not citizens of our country.

Hence they have no voice in the decisions as to our government or our laws or our courts. Yet they are under the jurisdiction of our government, our laws and our courts. They have certain rights, duties, responsibilities. In fact, we even take away many of the rights of citizenship for the serious violation of our criminal laws.

"Why then should there not be nations who in the world sphere must abide by the decisions, rules, justice of a United Nations of the World, even though they are not members.

"Furthermore, the course should always be as clearly defined as possible, through which non-member nations may ultimately become members of the United Nations group.

"To those who scoff that efforts to establish a governmental organization of some such nature and purpose are idealistic and impossible, might we point out that the alternative is recurring wars of increasing tragedy and horror.

"It can also be well said that when the founding fathers of our own United States of America were struggling to devise a new method of government, the same cries of the defeatist – 'Idealistic, impractical, impossible' – were heard.

"Permit me to quote from a statement of the Dean of Gloucester, Josiah Tucker, in 1786, just one year before the Constitution of these United States, which we have taken for granted for a century and a half, was drafted:

"As to the future grandeur of America, and its being a rising empire under one head, whether republican or monarchical in its form, is one of the idlest and most visionary notions that ever was conceived even by writers of romance. The mutual antipathies and clashing interests of the Americans, their differences of governments, habitudes and manners, indicate that they will have no centre of union and no common interest. They never can be united into one compact empire under any species of government, whatever; a disunited people till the end of time, suspicious and distrustful of each other, they will be divided and sub-divided into little commonwealths or principalities, according to natural boundaries, by great bays of the sea, and by vast rivers, lakes and ridges of mountains.'

"So stated the Dean of Gloucester one year before the Constitution of this country was drafted.

"We now have a world-wide vision to win the war. We must keep our sights high and maintain a world-wide vision to win an enduring peoples peace.

"America, peopled by the sons and daughters of every nation in the world, living and working side by side in forty eight different states, can and must furnish leadership in meeting this challenge.

The Need to Develop a Global Institution

"I do not propose that we enter into the systems of devious diplomacy and international intrigue of past relationships between countries, but rather that we bring to those relations some of the forthright and direct dealing that has characterized the relations between the forty-eight states of the Union.

"We should start moving now definitely in the direction of some such organization.

"The Food and Supply Office now under former Governor Herbert Lehman could well become a definite United Nations Agency as a forerunner of the United Nations Government.

"I understand that, as to many of the airports and harbors we are building, we are renouncing post-war rights. This may be just, but we ought to be reserving rights on behalf of the United Nations as a whole.

United Nations League

"We could well create now a United Nations Legion, a division of volunteers with varied nationality backgrounds, capable of speaking more than one language and willing to fight side by side for the United Nations Cause, as a forerunner of the police force of the future.

"The recent address of Winston Churchill, of President Roosevelt, of Generalissimo Chiang Kai-Shek, of Vice-President Wallace, are encouraging in their reference to the problems of peace.

"We must say over and over again, the men can die upon the battlefields in vain because of what happens after a war as well as because of what happens during a war. During the Battle of Independence, we began to plan to win that peace. We followed through at the Constitutional Convention and won the peace.

"During the war between the states, Lincoln began to plan the winning of that peace. We reverted from those plans to that shameful period of carpetbagging and almost lost the peace. Then we worked out the means of again accepting the Southern states, in keeping with human dignity, as a part of our Union, and the nation progressed.

"Our men upon the field of battle in '17 and '18 acquitted themselves well. They won a heroic, decisive victory, but – we all know – we lost that peace.

"The winning of this war must come first. It must be uppermost in our minds and thoughts and deeds. Each of us must add to the total strength of America until victory comes to the United Nations.

"But, pray God, we begin now to definitely think, and plan, and criticize, and propose, and amend, and devise, and follow through, to initiate the means of winning this peace, an enduring peoples' peace, for the sake of the future welfare and progress of men, and women and little children, in this nation and in the other nations of the world." (*Vital Speeches of the Day*, Vol. 9, pp. 318-320.)

A New System of Global Governance

Governor Stassen and Amos J. Peaslee were advocating far more than a league of sovereign nations. Their speeches reveal that the objective of the elite in America was to create a system of global governance where the nation-state was reduced to a mere administrative unit under international organizations.

Bretton Woods System

On February 12, 1945, President Franklin D. Roosevelt delivered a major address to Congress calling upon America to join the World Bank and the International Monetary Fund. These institutions were created at the Bretton Woods Conference. The President stated:

"To the Congress of the United States: In my budget message of Jan. 9, I called attention to the need for immediate action on the Bretton Woods proposals for an international monetary fund and an international bank for reconstruction and development. It is my purpose in this message to indicate the importance of these international organizations in our plans for a peaceful and prosperous world.

"As we dedicate our total efforts to the task of winning this war we must never lose sight of the fact that victory is not only an end in itself but, in a large sense, victory offers us the means of achieving the goal of lasting peace and a better way of life.

"Victory does not insure the achievement of these larger goals – it merely offers us the opportunity – the chance – to seek their attainment. Whether we shall have the courage and vision to avail ourselves of this tremendous opportunity – purchased at so great a cost – is yet to be determined. On our shoulders rests the heavy responsibility for making this momentous decision. I said before, and I repeat again: 'This generation has a rendezvous with destiny.'

PLANS CALLED CORNERSTONES

"If we are to measure up to the task of peace with the same stature as we have measured up to the task of war, we must see that the institutions of peace rest firmly on the solid foundations of international political and economic cooperation. The cornerstone for international political cooperation is the Dumbarton Oaks proposal for a permanent United Nations.

"International political relations will be friendly and constructive, however, only if solutions are found to the difficult economic problems we face today. The cornerstone for international economic cooperation is the Bretton Woods proposals for an international monetary fund and an international bank for reconstruction and development.

"These proposals for an international fund and an international bank are concrete evidence that the economic objectives of the United States agree with those of the United Nations. They illustrate our unity of purpose and interest in the economic field. What we need and what they need correspond – expanded production, employment, exchange more jobs, more trade and a higher standard of living for us all.

"To the people of the United States this means real peacetime employment for those who will be returning from the war and for those at home whose wartime work has ended. It also means orders and profits to our industries and fair prices to our farmers. We shall need prosperous markets in the world to ensure our own prosperity, and we shall need the goods the world can sell us. For all these purposes, as well as for a peace that will endure, we need the partnership of the United Nations.

"The first problem in time which we must cope with is that of saving life and getting resources and people back into production. In many of the liberated countries economic life has all but stopped. Transportation systems are in ruins and therefore coal and raw materials cannot be brought to factories.

"Many factories themselves are shattered, power plants smashed, transmission systems broken, bridges blown up or bombed, ports clogged with sunken wrecks, and great rich areas of farm land inundated by the sea. People are tired and sick and hungry. But they are eager to go to work; again, and to create again with their own hands and under their own leaders the necessary physical basis of their lives.

BIG JOB MUST BE STARTED SOON

"Emergency relief is under way behind the armies under the authority of local Governments, backed up first by the Allied Military Command and after that by the United Nations Relief and Rehabilitation Administration. Our participation in the UNRRA has been approved by Congress. But neither UNRRA nor the armies are designed for the construction or reconstruction of large-scale public works or factories or power plants or transportation systems. That job must be done otherwise, and it must be started soon.

"The main job of restoration is not one of relief. It is one of reconstruction which must largely be done by local people and their Governments. They will provide the labor, the local money and most of the materials. The same is true for all the many plans for the improvement of transportation, agriculture, industry and

housing, that are essential to the development of the economically backward areas of the world.

"But some of the things required for all these projects, both of reconstruction and development, will have to come *from* overseas. It is at this point that our highly developed economy can play a role important to the rest of the world and very profitable to the United States. Inquiries for numerous materials and for all kinds of equipment and machinery in connection with such projects are already being directed to our industries and many more will come. This business will be welcome just as soon as the more urgent production for the war itself ends.

"The main problem will be for these countries to obtain the means of payment. In the long run we can be paid for what we sell abroad chiefly in goods and services. But at the moment many of the countries who want to be our customers are prostrate. Other countries have devoted their economics so completely to the war that they do not have the resources for reconstruction and development.

"Unless a means of financing is found, such countries will be unable to restore their economies and, in desperation, will be forced to carry forward and intensify existing systems of discriminatory trade practices, restrictive exchange controls, competitive depreciation of currencies and other forms of economic warfare. That would destroy all our good hopes. We must move promptly to prevent its happening, and we must move on several fronts, including finance and trade.

U.S. Should Act Promptly on the World Bank

"The United States should act promptly upon the plan for the international bank, which will make or guarantee sound loans for the foreign currency requirements of important reconstruction and development projects in member countries. One of its most important functions will be to facilitate and make secure wide private participation in such loans. The articles of agreement constituting the charter of the bank have been worked out with great care by an international conference of experts and give adequate protection to all interests. I recommend to the Congress that we accept the plan, subscribe the capital allotted to us, and participate wholeheartedly in the bank's work.

"This measure, with others I shall later suggest, should go far to take care of our part of the lending requirements of the post-war years. They should help the countries concerned to get production started, to get over the first crisis of disorganization and fear, to begin the work of reconstruction and development; and they should help our farmers and our industries to get over the crisis of reconversion by leaking a large volume of export business possible in the post-war years.

"As confidence returns private investors will participate more and more in foreign lending and investment without any Government assistance. But to get

over the first crisis, in the situation that confronts us, loans and guarantees by agencies of Government will be essential.

"We all know, however, that a prosperous world economy must be built on more than foreign investment. Exchange rates must be stabilized and the channels of trade opened up throughout the world. A large foreign trade after victory will generate production, and therefore wealth. It will also make possible the servicing of foreign investments.

"Almost no one in the modern world produces what he eats and wears and lives in. It is only by the division of labor among people and among geographic areas, with all their varied resources, and by the increased all-around production which specialization makes possible, that any modern country can sustain its present population. It is through exchange and trade that efficient production in large units becomes possible. To expand the trading circle, to make it richer, more competitive, more varied, is a fundamental contribution to everybody's wealth and welfare.

Need for Economic Cooperation

"It is time for the United States to take the lead in establishing the principle of economic cooperation as the foundation for expanded world trade. We propose to do this, not by setting up a super-government, but by international negotiation and agreement, directed to the improvement of the monetary institutions of the world and of the laws that govern trade.

"We have done a good deal in those directions in the last ten years under the Trade Agreements Act of 1934 and through the stabilization fund operated by our Treasury. But our present enemies were powerful in those years too, and they devoted all their efforts not to international collaboration, but to autarchy and economic warfare. When victory is won we must be ready to go forward rapidly on a wide front. We all know very well that this will be a long and complicated business.

"A good start has been made. The United Nations monetary conference at Bretton Woods has taken a long step forward on a matter of great practical importance to us all. The conference submitted a plan to create an international monetary fund which will put an end to monetary chaos. The fund is a financial institution to preserve stability and order in the exchange rates between different moneys. It does not create a single money for the world; neither we nor anyone else is ready to do that. There will still be a different money in each- country, but with the fund in operation the value of each currency in international trade will remain comparatively stable. Changes in value of foreign currencies will be made only after careful consideration by the fund of the factors involved.

"Furthermore, and equally important, the fund agreement establishes a code of agreed principles for the conduct of exchange and currency affairs. In a nutshell, the fund agreement spells the difference between a world caught again in the maelstrom of panic and economic warfare culminating in war – as in the Nineteen Thirties – or a world in which the members strive for a better life through mutual trust, cooperation and assistance. The choice is ours.

The President Urges Prompt Action by Congress

"I therefore recommend prompt action by the Congress to provide the subscription of the United States to the international monetary fund and the legislation necessary for our membership in the fund.

"The international fund and bank together represent one of the most sound and useful proposals for international collaboration now before us. On the other hand, I do not want to leave with you the impression that these proposals for the fund and bank are perfect in every detail.

"It may well be that the experience of future years will show us how they can be improved. I do wish to make it clear, however, that these articles of agreement are the product of the best minds that forty-four nations could muster. These men, who represented nations from all parts of the globe, nations in all stages of economic development, nations with different political and economic philosophies, have reached an accord which is presented to you for your consideration and approval. It would be a tragedy if differences of opinion on minor details should lead us to sacrifice the basic agreement achieved on the major problems.

The Need for Additional Global Organizations

"Nor do I want to leave with you the impression that the fund and the bank are all that we will need to solve the economic problems which will face the United Nations when the war is over. There are other problems which we shall be called upon to solve. It is my expectation that other proposals will shortly be ready to be submitted to you for your consideration.

"These will include the establishment of the food and agriculture organization of the United Nations, broadening and strengthening of the Trade Agreements Act of 1934, international agreement for the reduction of trade barriers, the control of cartels and the orderly marketing of world surpluses of certain commodities, a revision of the Export-Import Bank, and an international oil agreement, as well as proposals in the field of civil aviation, shipping and radio wire communications. It will also be necessary, *of course*, to repeal the Johnson Act.

"In this message I have recommended for your consideration the immediate adoption of the Bretton Woods agreements and suggested other measures which

will have to be dealt with in the near future. They are all parts of a consistent whole.

"That whole is our hope for a secure and fruitful world, a world in which plain people in all countries can work at tasks which they do well, exchange in peace the products of their labor and work out their several destinies in security and peace; a world in which Governments, as their major contribution to the common welfare are highly and effectively resolved to work together in practical affairs and to guide all their actions by the knowledge that any policy or act that has effects abroad must be considered in the light of those effects.

"This point in history at which we stand is full of promise and of danger. The world will either move toward unity and widely shared prosperity or it will move apart into necessarily competing economic blocs.

"We have a chance, we citizens of the United States, to use our influence in favor of a more united and cooperating world. Whether we do so will determine, as far as it is in our power, the kind of lives our grandchildren will live. (*Vital Speeches of the Day*, Vol. 11, pp. 260-262.)

The IMF and World Bank Were the Cornerstones of the New International System

The Bretton Woods System – the IMF and World Bank – was designed by the financial powers in the West to govern the emerging international financial system which had been under development for over fifty years. With the successful construction of the Bretton Woods System, the movement toward global governance was finally taking definitive shape. The next step was to codify the Dumbarton Oaks Proposal in the U.N. Charter.

The U.S. Should Embrace the U.N.

On March 7, 1945 Harold E. Stassen, now a former governor of Minnesota, delivered a major address to the Minnesota United Nations Committee in Minneapolis. It was entitled, "San Francisco – the Golden Gate to Peace." He said:

"...As you know, the President has invited me to serve as a member of the United States delegation to the San Francisco conference of the United Nations, and I have accepted.

"It will be my endeavor to study and to learn as much as possible of the information, ideas and viewpoints of the people of America on the questions coming up at this conference. I have consulted and will consult with leaders of our government and of my Republican party; of Church; of labor, agriculture and business; of women, of youth and of veterans. But I will not seek to, nor claim to, represent any of them as special groups at San Francisco. I will consider it my duty

to represent my country as a whole as I see its best welfare, and to be individually responsible for my actions. It will be my aim to assist in securing a result of this crucial conference which will be supported by the overwhelming majority of the people of America, and by substantially all of the other United Nations. This means, of course, that the result will not be, and can not be, entirely in accord with any nation's or any person's individual views. But, I cannot say too emphatically, that the alternative to finding the areas of agreement is to do nothing at all. And nothing at all would start us on our way along the short road of inaction, to world-wide depressions and to the next and most tragic world war.

"That is not an acceptable alternative.

"It is of tremendous importance that the principles which will guide our actions in the years to come be formulated and clarified and tempered in the heat of free discussion now, so that they may be clearly and definitely set before the world.

"To stimulate this search, speaking only for myself, I frankly state what I consider should be the seven cardinal points of our future world policy.

Seven Cardinal Points of Future World Policy

"First: That as a nation we will join with our present allies at San Francisco to build a definite continuing organization of the United Nations of the World, based on justice and law and insured by force. That we will seek to gradually develop a new and higher level of government, with legislative, judicial and executive functions, and with world-wide jurisdiction, for the future peace, progress and well-being of mankind. That we are and will continue to be interested in what happens in every other part of the globe. That this is one world.

"Nor can I speak those last two words without pausing to pay a tribute to him who made them mean more than mere words, more than a symbol, the veritable keystone to a living cause and hope for mankind – Wendell Willkie.

"Second: That we do not subscribe to the extreme view of nationalistic sovereignty, that we realize that neither this nation, nor any other nation can be a law unto itself in the modern world, and that we are willing to delegate a limited portion of our national sovereignty to our United Nations organization, so that it may be effective in the tasks we expect it to accomplish. That we hold that true sovereignty rests in the people, and that there is and must be a law of humanity above and beyond the narrow rule of nationalistic absolute sovereignty.

"Third: That we consider that the future welfare and peace and happiness of the people of America is inseparably inter twined with the future welfare and peace and happiness of the men and women and children of the world.

"Fourth: That we will use the enormous productive capacity of America and the reservoirs of capital and credit and technical skill to contribute to the gradual advancement of the standards of living of the peoples of the world, not as recipients of charity, but as self-respecting men and women of dignity and of pride.

"Fifth: That we believe in the freedom of information through press and radio and school and forum as a vital factor in the peace and progress of the world and in the fulfillment of the dignity of man.

"Sixth: That those who were aggressors in this war shall be stripped of all means to make war and shall remain so stripped. That we propose to remain strong on land, at sea and in the air, and will join with Russia and Great Britain, China and France and the other United Nations in furnishing police power in the world.

"Seventh: That we are and propose to remain a democracy of free citizens with an economic system of private capital and individual enterprise. That we will constantly seek to improve the functioning of our system both as to freedom and equality of our citizens and as to the success and adequacy of our economy. That we will explain our system to the world but will leave it to the peoples in each nation to decide for themselves their own form of government so long as they do not trample on basic human rights, or threaten the peace of the world, or transgress upon their neighbors. That we will permit our own citizens to learn of any other form of government they wish to study, but will not permit any other government to actively seek to undermine our own.

"Obviously each of these cardinal points could well be the subject of a major address. Within the limits of my time, this evening, I will discuss them in turn.

"It is very generally agreed now that an international organization should be formed and that the United Nations should be the basis of such an organization.

"I am not one of those who feel that the organization must take some certain detailed, exact form. I believe there are many forms that would be a definite step forward and would make a constructive contribution.

WORLD-WIDE LAW

I hope that it will include some method of developing basic world-wide law. It should make possible the future enactment of a fundamental code of human rights. The beginning may be very small. But even if we started with the enactment of one law, a law that no country, in time of peace, shall execute a human being without just trial, it would be a significant step. We sometimes fail to realize that there is no such world law today. The Nazi storm-troopers and Gestapo who dragged civilians from their houses in Germany and summarily shot them were violating every moral code we know of, but they were not violating any international law

because there is none to protect a human being within a nation. This starkly silhouettes the tragic slowness of the development of society on the world level.

"We know full well that Nazi aggression actually started, not when Hitler marched across his borders, but rather when he first ruthlessly trampled the rights of men within Germany.

"From small beginnings, gradually the rights of freedom of worship, of fair trial, of freedom of speech and press, the right of the worker to organize and the prevention of discrimination should be developed. With it should be stated the world-wide laws or rules against aggression, for the flight of aircraft, for the use of ports and canals, the restriction of armaments, the availability of resources, the advancement of health and education and the prevention of unjust confiscation of property.

UNITED NATIONS COURT

"Obviously, if we are to have laws we must have a court to administer these laws. Clearly, then, a United Nations Court of some type with world-wide jurisdiction is essential.

"It is equally clear that a police force of some nature is mandatory to enforce the decisions of the court, if order and justice is to be respected and maintained. This definitely does not mean an all-powerful international police force of a super state.

"Let us clarify our thinking.

"If either the United States, or Russia, or Great Britain decide, in the next twenty-five years, to make war, then there will be another world war, and no organization, or league, or union, or treaties will stop it. But I do not believe any of these countries will want to make war. Each knows the horrors of war. Each has so much to gain by not making war. Each has a great future in the peaceful development of its resources and its standing in the world.

"They will not always see problems alike. They will not always please each other. But, in the main, they must and should work out their differences of views and find the way for joint action. The Yalta Conference was a very important indication that this can and will be done. Clearly, then, our policies should be based on the development of the world with these three desiring peace.

"A note of caution should also be sounded, however, that we should definitely envisage a system of laws and justice and a moral code supported by police force, and must not permit the development of a continuing system of world power and force without law.

U.N. Trusteeship of Industrial Nations and Territories

"The United Nations should also develop an effective and just method of trusteeships for use in governing territories that for reasons of extreme military importance, or inability of self-government, or peculiar economic position, or seizure from an enemy, can best be held in a form of joint United Nations title, rather than in the title of any individual nation. The enlightened interest of the world and the human rights of the people concerned should both be carefully safeguarded. The trustee may be either one of the United Nations, or the United Nations organization itself.

"Let us also make it clear that the United Nations organization does not mean breaking up any of the stable associations of nations and peoples now in existence. It is definitely not adverse to the British Commonwealth of Nations, nor to the Union of Soviet Republics, nor to the United States of America, nor to the various associations of nations through treaties and friendships. On the contrary, we seek to build on these cornerstones of stability a worldwide beginning for order and justice and peace in place of chaos and tragedy and war.

"Tremendous steps have been taken in recent months toward the fulfillment of this first cardinal point of our world policy.

International Efforts to Devise

"With the background of the Atlantic Charter and the commitments of Secretary Hull's conference at Moscow, the declarations of Teheran, the proposals of Dumbarton Oaks, the decisions at Yalta, the President's excellent message to Congress last week, and the never ending wholesome study and discussion throughout America, have brought us to the eve of the San Francisco Conference for the drafting of a definite framework for continuing United Nations action in peace, with the overwhelming support of the people of the country and of the United States Senate for the steps proposed.

"We should look, therefore, upon the San Francisco Conference as a golden opportunity to win a beachhead in the battle for a just and lasting peace.

"The beachhead is of crucial importance and requires many sacrifices and never-ending determination.

"And also, the beachhead is not the final goal, but only the jumping-off place for the long, hard drive toward victory.

"So it will be, and must be at San Francisco. The results of a successful conference will be of incalculable importance, but they will not be the final answer to our world problems for peace. They will only be the first step. Continuing interest of the American people, continuing devotion of their government, the

approval and support of the proposals by the Senate, and then the steady growth and development of the United Nations organization, will be essential if we are to have anything more than a precarious beachhead.

A Higher Level of Government

"In a discussion of the development of a new and higher level of government you frequently hear the rejoinder, yes, that would be a good step but it would violate the rule of absolute nationalistic sovereignty.

"Let us meet this issue squarely.

"I do not want my country to face another generation of youth marching off to the horrors of war and say: 'We could have prevented the development of this conflict but we had to cling to the extreme principle of absolute nationalistic sovereignty.'

"There may be many diplomats who do not know it; there may be many political leaders who are afraid to admit it; there may be people who do not understand it, but the extreme principle of absolute nationalistic sovereignty is of the Middle Ages and it is dead. It died with the airplane, the radio, the rocket and the bomb.

"In its place we must develop the new principle of the rights, duties and responsibilities of each nation to the other nations and of each man and each woman to the other people of the world.

Sovereignty Must Be Given Up

"No nation has any right in the world to do as it pleases without regard to the effects of its actions upon the peoples of other nations. True sovereignty rests in the people, and the people know that for their own future welfare they must exercise a portion of that sovereignty on a world level in place of the nationalistic level.

"Just as each free man must so limit his liberty of action so that he does not injure his neighbor, so each nation must limit its action so that it does not injure its neighbor. And in one world today, the nations of the world are all neighbors.

"One of the most striking facts which has been demonstrated in this war is the enormous productive capacity of America. It has been a huge power for destruction and for victory.

"It can be an equally great power for world construction and progress after the war if we but lift our eyes to its opportunities and responsibilities and take the necessary steps for world stability.

The Need for Foreign Investments

"This will require increased investments by American capital in the resources and facilities of other nations, and increased trade with lower tariffs throughout the world. We must explode the narrow view that if we develop production in other parts of the world we will pre-empt our own markets. We will create markets as we develop means to produce. Producers are consumers. The capacity of the human race to consume is just as great as the capacity of the human race to produce. Of course there are and will be acute problems of distribution. But we can either fight over a shrinking wealth, or work together to participate in an expanding production and the wealth of the future.

"Vast sums of charitable assistance will be needed in the immediate post-war period, but this should be definitely separated from the careful investment of capital in the long-term development of other nations. It is better that American capital be invested and reinvested in various countries of the world to assist in raising their standards of living, and in directly develop jobs in America in the process, than that it be sterile and stagnant in America.

"This does not mean a Santa Claus role. Most of the peoples of the world do not want charity beyond the war emergency conditions. They want to be self-reliant. They want to rebuild their own homes and develop their own economy. It is healthy and wholesome for them and for the world that they should.

"But it will mean long-term investments and reinvestments.

"Nor is this all just an idealistic dream. Never did a country for its own sake more need to clear the cobwebs from its thinking. Never did a country for its own sake more need to appraise the value and the purpose of its great productive strength.

"If it does not lift its eyes and use its brain and its brawn for progress of the world it will wither and deteriorate in petty internal struggles over the division of a shrinking economy.

"But if it contributes to the progress of the world it will itself share in that progress in high standards of living, a richer life and peace.

"This is also true of other peoples. Any attempt to profit by one nation at the expense of other peoples will fail. If it meets with temporary success it will soon be lost in either the whirlpool of depression or the cauldron of war. We cannot have continued economic warfare and continued military peace.

"The world must advance together and there is room in the world for all the peoples who live in it.

"World opinion is almost unanimous that the Germans and the Japanese must be stripped of their means of making war. This can best be done by joint action of the victorious nations through the United Nations organization, with a continuing joint occupation and inspection.

"Under that military rule all indemnities and penalties and reparations should take place. Then and only then the gradual development of self-government should be permitted to arise. It should begin in the localities and in the schools and slowly develop as the capacity and desire for nonaggressive, peaceful and successful administration is demonstrated.

FREEDOM OF INFORMATION

"Freedom of information to the citizens of these countries must be a fundamental rule. Open to the children of Germany and Japan and Italy the full access to the radios and publications and books of the world, and if we are right in our basic concepts in America, and I believe we are, in a generation or two we will have a different Germany and a different Japan. When the change is demonstrated, they should be permitted to become self-governing and be granted membership in the world organization, but even then there is no reason why they should be permitted to rearm, and there is every reason to prevent them from rearming. We will be saying in effect to the conquered nations, 'We will permit you to rise again as successful, self-governing constructive nations, if you so desire, but we will not permit you to rise again as a military power, whatever may be your protestations of intentions.'

"We, ourselves, should remain strong. We should maintain a powerful, modern navy. We should keep an alert updated air force. We should constantly train an efficient land force.

"We should do this to fulfill the police force responsibility which will be ours in enforcing and supporting the world code of justice and the United Nations organization, and also to assure our own future security and progress. We should make it plain that much as we want peace we will fight again and will fight any one who basically violates world justice and seeks to flaunt our policies and tries to make might right. This position, I am convinced, is more likely to maintain peace than an announced policy of making ourselves weak and of not fighting, even though provoked.

"To those who scoff at thoughts like these expressed tonight as abstract idealism I simply ask that you look out upon the world-wide tragedy of war today. When the terror of war has reached the grand scale that it has today, it is time for some thinking for peace on a grand scale. And I add that I will work with you with just as much hard-shelled realism on the emergency of today and with just as much down-to-earth practicalism on the problems of tomorrow.

"But our ideals will determine the all-important question of the basic course that we take.

"We need not scoffers today.

"We need men. Men to assault the pillboxes of lethargy – the emplacements of prejudice – the spitting guns of intolerance. Men who are willing to fall in the assault so that others may carry the day. It will take that to build the world. It will take that to raise the standards of mankind – to make freedom and liberty and peace – living symbols to men and women and children – and not mere words in speeches or in charters.

U.S. Assumes World Leadership

"Our fighting men want America to have a world policy for peace that is as big, as definite and as successful as has been our strategy of war.

"It will take time and it will cost.

"But the alternative makes it worth the cost.

"They do not want you to surrender before the counter-attacking assault waves of cynicism this best hope of enduring peace on earth.

"Some people say that our democracy is not perfect and that there is discrimination and inequality and apathy and corruption. They are right. Some say that our economic system has not functioned perfectly and that there are maladjustments and sufferings and faulty distributions. They are right.

"But neither of these facts are any reason for waiting for the correction of these imperfections before we step forward to fulfil the world leadership which it is mandatory that we exercise.

"We must advance on both the world front and the domestic front at the same time. In fact, they are in large measure interdependent.

"I speak not of a utopia. I speak not of a human race suddenly turned angelic.

"There will be selfishness and greed and corruption and narrowness and intolerance in the world tomorrow and tomorrow's tomorrow. But pray God, we may have the courage and the wisdom and the vision to raise a definite standard that will appeal to the best that is in man, and then strive mightily toward that goal. (*Vital Speeches of the Day*, Vol. 11, pp. 338-341.)

A Call for Speedy Ratification of U.N. Treaty by the U.S. Senate

As noted earlier, the U.N. Charter was drafted in San Francisco in June of 1945 and sent to each nation for ratification. In an address entitled, "United Nations Charter: Speedy Ratification Desirable," Senator Tom Connally of Texas stated:

"A few hours before the Senator from Michigan [Mr. Vandenberg] and I were to leave for San Francisco, I made a statement in the Senate respecting our mission to the United Nations Conference on International Organization for peace and security. I expressed the fervent hope that we should be able to participate in the drafting of a charter subscribed to by the participating governments and carrying the hopes of mankind for world peace. It is now my happy privilege to announce to the Senate that we have brought back to the President a comprehensive charter which we trust will meet the approval of the Senate and the people of the United States, as well as the people of all of the United Nations whose representatives were assembled at San Francisco. It is my confident belief that with ratification by the United States Senate the charter will be overwhelmingly approved by the United Nations.

"It is not my purpose, today, to launch upon a formal presentation of the document to the Senate, or to take part in extended debate. It is rather my purpose to advise the Senate that the labors of the United Nations Conference at San Francisco have been concluded, and that the terms of the charter will soon be before the Senate for its formal action.

"In the remarks which I shall make today, rather hastily prepared, I shall not go into great detail, or make any effort to launch a full-dress debate upon the charter. I shall be followed within a short time by the eminent Senator from Michigan, who will also address the Senate upon the outstanding features of the charter.

"From the dawn of modern civilization eminent men have in vain advanced plans to eliminate the scourge of war. Great thinkers like Dante, Grades, William Penn, Rousseau, Bentham, and Kant, have risen to magnificent heights to formulate charters, which, in their own times, might have been effective designs for world peace. But these plans came to naught, because man lacked the imagination and the daring necessary to put them into practical effect.

"In 1919 the Covenant of the League of Nations was submitted to the United States Senate. It did not receive the sanction of this body. The noble conception of that towering leader, President Woodrow Wilson, was however, rejected His exalted vision, his heroic efforts toward world peace and his eloquent speeches in its behalf will remain indelibly inscribed on the annals of the centuries.

"Now we are confronted with another great opportunity. This time, however, the charter was not struck off by the brain of a single individual. This time the

charter was conceived in the best tradition of American democracy. It has been discussed for many months throughout the length and breadth of the land. Now, finally, it has emerged in its completed form from the deliberative efforts of the representatives of 50 nations met in solemn conclave.

It is believed by numerous observers that the failure of the United States to ratify the League of Nations Covenant enfeebled the League and rendered it impotent from the beginning. Without the prestige and influence of the United States, powerful in war and powerful in peace, to many the League seemed doomed to failure from its inception. The League performed many useful acts. It composed many disputes and disagreements among the nations. It encouraged and stimulated international cooperation. Yet, on the whole, its power became weakened, not alone because of defects in its structure, but because member nations failed to utilize its opportunities. Its existence, however, was not without value to the people of the world. Its experience, its weaknesses, and even its failures have served to light the way for the organization which we are now endeavoring to establish.

"The United States of America has a high and solemn responsibility with respect to the new world organization. Franklin D. Roosevelt, our late beloved and lamented President, led the way in creating the cohesive spirit of harmony and unity which has characterized the United Nations battle for freedom against the Axis Powers. And it was President Roosevelt who early conceived the plan of transforming this spirit of unity and cooperation into a positive, dynamic force for world peace and security.

Years of Preparation for San Francisco Conference

"The Atlantic Charter, the United Nations declaration, the Moscow declaration, and the Conferences at Cairo, Teheran, and the Crimea, together constitute a magnificent background for the calling of the Conference at Dumbarton Oaks and the Conference at San Francisco. These documents and the results of these Conferences express the hopes and expectations of the United Nations. They reflect the noble purposes and high objectives which we have in mind. Our gallant fighting men are on the battlefields of the world today to establish and maintain these principles.

"The San Francisco Conference was in session for a period of 9 weeks. Those historic days were crowded with detailed and meticulous consideration in 12 committees and 4 commissions of the Conference of the text of Dumbarton Oaks and proposals to change its terms. Literally hundreds of amendments presented by large and small states alike were carefully examined in relation to the experiences under the League of Nations and the powers and functions of the new organization. When it is remembered that delegates from 50 nations with varying historical backgrounds, speaking many tongues' and representing divergent views with

respect to international problems, sat in the Conference, it is a remarkable tribute to the common ideals of the United Nations that final and unanimous agreement upon the entire document was achieved. The overwhelming desire to create an international organization for peace and security overcame such differences as arose, and they were adjusted in a spirit of conciliation and concord and unity toward the lofty objectives of the Conference.

Support for a World Organization

"I am confident that the American people overwhelmingly support the new charter. During the course of our deliberations thousands upon thousands of letters and telegrams poured into San Francisco demanding the effective collaboration of the United States in a world organization strong enough to keep the peace. These letters and telegrams came from every corner of these United States, from business and professional men, farmers, labor organizations, church groups, educators, young people in their teens – yes; and from mothers and fathers whose boys have poured out their blood on foreign soil in order that civilization may survive. They came from men in the armed services who are facing the embattled enemy – from men who know the sacrifices and miseries and sufferings of war and desire that their sons and their country may be spared its horrors.

"Any doubt that may have existed as to the attitude of the people of the United States toward international cooperation to prevent war has long since been dispelled by the resolutions passed by both the House and the Senate and by the declaration embodied in the platforms of both the Republican and Democratic Parties. They reflect the widespread sentiments of our people.

U.S. Delegation

"The United States delegation also received inspiration and assistance from our advisors and consultants in San Francisco. The consultants represented the interests of some 50 of our great national organizations – groups like the American Bar Association, the League of Women Voters, the Service clubs, farm and labor organizations, the Federal Council of Churches, and other church organizations. The consultants not only kept us in close touch with public opinion, they also advanced a number of excellent ideas, some of which were later incorporated in the charter.

"The international organization which the charter establishes will include a general assembly of all member nations, in which the smallest and the weakest state will have equal power and authority with the mightiest and strongest. The assembly will constitute a democratic forum in which freedom of debate is practically unlimited and in which all of the matters within the scope of the charter or relating to any of its organs may receive the scrutiny and the discussion of the member states. It will form a world forum for the discussion of matters whatever their origin that may relate to international peace and security. Here will be

hammered out on the anvil of debate the problems that may confront the organization throughout its career. Here will be formed a mighty public opinion which shall exert a tremendous influence upon the solution of all questions that relate to international peace and security. Here may be formulated recommendations to the Security Council and to the member states.

"It was necessary that the executive power of the world organization should be vested in a relatively small, powerful body with authority to act speedily and decisively whenever aggression raises its ugly head. The Security Council will fulfill that function. It is endowed with wide authority in the settlement of international disputes. It will consist of 5 permanent members representing the United States of America, the United Kingdom, the Union of Soviet Socialist Republics, China, and France. Six non-permanent members will be elected by the Assembly to serve for terms of 2 years. It will be noted that while the great powers have five permanent seats on the Council, a majority of six non-permanent members will be elected by the Assembly. When it is remembered that the population of the five permanent members is greater than that of all the remaining nations signatory to the charter, it will be perceived that a well-maintained balance is provided.

Security Council

"The Security Council may receive and consider a complaint by any member or nonmember state in respect to an international dispute. Under the charter it may freely discuss and consider any such dispute. Upon this point there was for a considerable time sharp difference of opinion, but it was finally resolved in behalf of the freedom of discussion and consideration. However, with a single exception, any action of an affirmative or positive character by the Security Council requires a majority of seven votes, including the concurring votes of the five permanent members.

"The Security Council has very wide powers with respect to recommending to the parties to a dispute its adjustment through peaceable measures, by negotiation, diplomacy, judicial procedure, conciliation, or arbitration. It may also suggest the particular procedure which should be adopted to compose the quarrel.

"The Security Council may decide what measures short of armed force are to be employed to give effect to its decisions, and it may call upon members of the United Nations to apply such measures. Let me here observe that by the signing of the charter every nation assumes the solemn and serious obligation to exert all its efforts toward peace, to contribute to the work of the council, and to assume the solemn obligation which the charter imposes. These measures may include complete or partial interruption of economic relations and of rail, sea, air, postal, telegraphic, radio, and other means of communication and the severance of diplomatic relations. These are the economic sanctions. If peaceable measures fail,

if the parties are unable to settle their disputes by negotiation, arbitration, or conciliation, if the Security Council deems it necessary to employ other measures, it may impose, first, economic sanctions. As I have stated, these may include complete or partial interruption of economic relations and of rail, sea, air, postal, telegraphic, radio, and other means of communication, and the severance of diplomatic relations. The pressure and power of such measures and the consequent formation of a concentrated world opinion will exert a compelling influence toward settlement of the dispute.

"If measures for peaceful settlement fail the Security Council may impose military sanctions. Should the Security Council consider that measures above mentioned would be inadequate or have proved to be inadequate, it may take such action by air, sea, or land forces as may be necessary to maintain or restore international peace and security. Such measures may include demonstrations, blockade, and other operations by air, sea, or land forces of members of the United Nations.

"It was the solemn judgment that while this great endeavor is in behalf of peace, while peaceful measures should be first invoked, and pressure of opinion and peaceable influences should be exerted, in order to have real authority to compose disputes there must reside somewhere in the organization the right to use military and naval forces if that should appear to be the only remedy possible under the circumstances.

Military Staff Committee

"In order to provide necessary naval and military forces, the charter prescribes that there shall be established a Military Staff Committee under the control and direction of the Security Council. The Military Staff Committee, consisting of the Chiefs of Staff of the five permanent members of the Council, shall, under the direction and control of the Council, initiate the negotiation of agreements between the various nations of the organization or between groups of the nations and the organization, for supplying contingents of armed forces to be used in emergency. It is expressly stipulated that provision shall be made for the maintenance by members of the organization of air contingents which may be readily employable in case of emergency. I may observe here that agreements to provide military forces must be ratified by the respective governments; so if the charter is adopted, such agreements will ultimately come back to the Senate for action.

Security Council Should Have Wide Authority

"It was felt to be necessary that the Security Council should have wide authority with the ability to act speedily and effectively. Here lies one of the essential differences between the old League of Nations and the new world organization. The present charter proposes to combine might and right through an authority strong enough to keep the peace. The League of Nations could recommend, it

could propose, it could suggest, but it was unable to take effective action to stamp out aggression.

"One issue that was vigorously contested was the so-called veto in the Security Council. The provision that in all cases except procedural matters, the Security Council should act by vote of at least seven members, including all five of the permanent members, aroused substantial opposition. However, after long and thorough debate and consideration, it was determined that this provision should be maintained. This voting procedure is much more liberal than that which obtained in the League of Nations. There complete unanimity of all members of the Council on all important questions was required. Even the weakest member of the League Council could veto any action proposed.

Yalta Meeting

"At the historic meeting in the Crimea, President Roosevelt proposed what has become known as the Yalta voting formula for the Security Council. That formula was agreed to at Yalta. It was also approved at San Francisco. It was there embodied in the Dumbarton Oaks text, which was the basis of our consideration and study. It will be recalled that the original Dumbarton Oaks text did not deal with that subject. It was omitted. But when we took it up in San Francisco, the steering committee had the voting formula inserted into the body of the Dumbarton Oaks text, so it was considered as though it were a part of the original Dumbarton Oaks text. The United States delegation consistently and continuously supported the formula until its final adoption. The vision and courage of President Roosevelt were justified and vindicated.

Veto Power of Security Council Members

"The basic thesis of the rule of unanimity – that is the term which we employ rather than 'veto' – of the five permanent members of the Security Council is that so long as the great powers remain united, they shall be able to preserve the peace of the world. If the great powers should be divided – if discord should arise among them – they could not successfully preserve international peace. So long as the great powers possessing ample material resources and military and naval might, are charged solemnly by the charter with the high responsibility of preserving the peace of the world, and remain conscious of their high duties and obligations, peace can be preserved. It must be borne in mind that the mere existence of the veto does not mean that it will be used frequently. In all likelihood it will be seldom employed. It is not believed that it will be exercised capriciously or arbitrarily. The charter places the primary responsibility upon the Security Council and upon the five permanent members, to adopt peaceful measures to preserve the peace of the world. If there is any conscience in nations, if there is any feeling within the hearts of great powers of responsibility to the peoples of the world, I do not believe the veto will be employed capriciously or arbitrarily. A recalcitrant

member of the Security Council would be faced with the opinions of four other permanent members and perhaps six nonpermanent members. The pressure of their views would create a compelling world opinion that would make it very difficult for a single member of the Security Council alone to veto the peaceful settlement of a dispute.

"I am aware of criticism leveled at the rule of unanimity. It must be remembered that the United States itself will be a permanent member of the Security Council. Our country will have the right to exercise the veto whenever in our opinion it is wise and just to do so. Our armies and navies cannot be sent into a foreign war without the consent of the United States.

"The veto is something which we of the Senate must examine and approach with great candor. An effort may be made to lead our people to believe that the veto is in the charter wholly because of our allies – that they alone demand it. Were the veto not in the charter, what would some of the critics say? Would they not use the argument that American troops could be committed to combat in foreign lands without the consent of the American people. We must recognize that the Yalta formula not only gives the other great powers a veto over military action; it gives the United States of America that same veto.

A Shrinking World

"The United Nations Charter is based on the fundamental assumption that in the shrinking world in which we live world peace is indivisible. We all realize, however, that under certain circumstances it may prove desirable to have disputes of a regional or local character settled by regional peace machinery. The charter makes ample provision for such regional arrangements to function under the general Supervision of the Security Council. Thus the ground work is laid so that the Act of Chapultepec and our inter-American peace machinery in general can be properly integrated into the overall world organization. Neither the effectiveness of the inter American system nor the authority of the United Nations organization will be impaired.

While I have dwelt at some length on the Security Council, I desire to make it clear that we should not place all our emphasis on the security functions of the new organization. For no matter how carefully we build the machinery for the peaceful settlement of disputes, we cannot ignore constructive steps to consider the social and economic causes of war.

Economic and Social Council

"To that end the charter provides for an Economic and Social Council, which is authorized to set up a number of commissions to aid in the solution of international social, economic, cultural, and humanitarian problems and to promote regard for human rights and fundamental freedoms. In their respective fields the commissions

will initiate studies and make reports. They may also make recommendations in respect to such matters to the General Assembly and to the member states. Neither the commissions nor the Economic and Social Council will have any authority or power to impose upon any state any regulation or provision whatsoever. The final choice and decision in respect to all such recommendations will remain with each individual state.

"The old mandates system under the League of Nations has been abandoned and a system of trusteeships created. Distinction is made between territories within strategic areas and those in non-strategic areas. It is also provided that the welfare of the dependent peoples in such areas shall be taken into account and measures adopted looking to their improvement and ultimate self-government.

"Great care was exercised in protecting the interests of the United States in territories from which our savage enemies were expelled at the cost of so many lives of our gallant and intrepid soldiers and sailors. It was our earnest endeavor to safeguard and protect the security and vital defense of the United States and world peace. I may here allude to the fact that we had constantly sitting at our side admirals and generals from the Army and Navy, counseling with us with respect to these matters; and it was with their assurance that our vital interests in self-defense were protected that we consented to these provisions.

International Court of Justice

"The International Court of Justice constitutes the fifth great arm or agency of the new organization. Whereas the Security Council is primarily designed to handle political disputes, the Court will be called upon to adjust differences of a legal or justiciable nature. The new Court is patterned closely after the old Permanent Court of International Justice which functioned so satisfactorily during the two decades prior to the outbreak of World War II. Jurisdiction will be optional on the part of any party to a dispute. On the other hand, where disputes are referred to the Court or where a state accepts the compulsory jurisdiction of the Court in certain categories of cases, its decisions are, of course, binding upon the parties. I may say here that a nation may file a consent to accept the compulsory jurisdiction of the Court in a case, as in all cases, or it may reserve that right, and only file its consent in particular cases, or not accept the jurisdiction at all, unless it so desires.

"The American people have traditionally stood for the great ideal involved in the settlement of disputes according to the principles of law and justice. They will, I am sure, wholeheartedly approve the new Court as a vital and essential part of the world organization. The statute of the Court has already received wide approval among the members of the American Bar.

Flexibility of UN

"The United Nations organization must be allowed to grow and develop. It must possess sufficient flexibility to meet the changing needs of the time.

"The charter wisely contains provisions for the submission and adoption of amendments to the charter and for the calling of a constitutional conference for its general review.

"Any modification of the present charter recommended by two-thirds vote of the conference shall take effect when ratified in accordance with their respective constitutional processes by two-thirds of the members of the organization, including all the permanent members of the Security Council. There can be no valid claim that we are becoming a member of an organization which may assume new and unforeseen powers binding upon us without our consent.

"At San Francisco there was splendid unity and harmony within the United States delegation. On all matters the delegation voted as a unit. Such minor differences as existed were adjusted within the delegation, and we presented a united front.

Edward R. Stettinius, Jr.

"Hon. Edward R. Stettinius, Jr., Secretary of State and head of the United States Delegation, was elected president of the Conference and presided with much distinction and efficiency. His leadership and management were outstanding and he deserves high credit and praise for the masterly manner in which he led the United States delegation and in which he directed the affairs of the entire Conference.

"Secretary Hull, who was designated as senior advisor, unfortunately could not attend the sessions at San Francisco. We sorely missed him. Over the years he has rendered heroic service in the cause of peace. He aided in drawing the Dumbarton Oaks document, and it was a source of real and abiding regret on the part of the United States delegation that he was unable because of illness to take part in our deliberations. However, his counsel and advice were often conveyed by telephone, to the great benefit of the delegation. We were frequently in contact with him over the long-distance telephone.

Senator Arthur H. Vandenberg

"Senator Arthur H. Vandenberg, a high-ranking member of the Committee on Foreign Relations, worked diligently as a member of the subcommittee of the Foreign Relations Committee which conferred frequently with Secretary Hull in laying the foundations of a world organization for peace. He supported heartily the

resolution calling for international cooperation adopted by the Senate in 1943 by a vote of 85 to 5.

"At San Francisco, Senator Vandenberg contributed his great abilities to the success of the Conference. The freedom of debate secured to the General Assembly was achieved through his labors. He was influential and forceful in securing the provisions establishing regional arrangements. He gave to the general work of the Conference his large experience in public affairs and in the field of foreign relations. He deserves the thanks of his countrymen for his fine and valuable service.

Congressman Sol Bloom

"Representative Sol Bloom, chairman of the House Committee on Foreign Affairs, discharged his duties with fine ability and zeal. His extensive service and experience in parliamentary processes contributed substantially to the work of the Conference. On the committees and commissions dealing with the General Assembly and trusteeships, he rendered signal service.

Congressman Charles A. Eaton

"Representative Charles A. Eaton, ranking Republican member of the House Committee on Foreign Affairs, approached his duties in a fine spirit and a lofty view. Although suffering from illness at various times during the Conference, he gave unsparingly of his wisdom and experience in the work of the Conference. He gave particular attention to the committee dealing with the general provisions of the charter. They related to the amendment, withdrawal processes, the international secretariat, and the other principal organs of the United Nations organization.

Harold Stassen

"Commander Harold Stassen, former Governor of Minnesota and on leave from the Navy, gave generously of his splendid abilities. The provisions relating to trusteeships were primarily shaped and fashioned through his efforts. With industry and energy he gave attention to many parts of the charter. He made valuable suggestions and contributions to the work of the Conference and is entitled to much praise and credit for his achievements.

"Dean Virginia Gildersleeve, of Barnard College, brought to her work at the Conference a veritable wealth of experience in the field of economic and social activity. She rendered outstanding service with regard to the social and economic council, and in connection with the preamble to the charter. She made a distinct contribution to the Conference, and the women of the United States have just cause for pride in her accomplishments.

"Of course, I also took part in the Conference from time to time. That statement is an interlineation. It adds nothing to my earlier remarks. I merely thought at this time that I should mention it.

Harry Truman

"Our delegation leaned heavily on the experience and wisdom of our former great colleague and leader, President Harry Truman, who so recently assumed the heavy responsibilities of the Presidency. Though the conference was held at the time when he was laboring with huge new problems that confronted him, his breadth of vision and his keen insight into world problems were a constant source of inspiration and encouragement. His superb leadership guided us in our deliberations. Not a day passed but what the delegation conferred with President Truman by telephone.

"The scope of agreement reached at San Francisco has been remarkable, and notwithstanding divergent views and earnest attachment to differing concepts, final and complete agreement was reached on the entire charter. This was true because all the 50 nations at San Francisco aspired to the same sublime goal which called the Conference into being.

An Agency of Tremendous Powers and Influences

"Its adoption marks an epochal period in international affairs. It creates an agency of tremendous influence and power. The future course of history may be affected by its conduct and by its heroic efforts in behalf of peace. However, it creates no superstate. The rights and powers of individual states are not impaired, except to the extent of the obligations and duties which they voluntarily assume when they sign the charter.

"Its strength rests upon cooperation and a community of interest in providing collective security. A heavy responsibility rests upon every member of the organization not only to use its own powers and efforts to promote the interests of the organization, but it assumes a duty to further the purposes and principles of the organization. This sense of responsibility, this compelling duty, will generate a desire for peace, a will to live on terms of amity with the other peoples of the earth.

"While the completed charter reflects the united opinion of the peace-loving nations of the earth, I do not proclaim it as embodying perfection. It could not be expected that 50 nations could agree upon a document whose every line and paragraph and phrase would meet universal approval. However, the charter marks a significant beginning. It will grow and develop in the light of experience and according to the needs of nations under international law and justice and freedom. These principles are embodied in the charter in luminous and moving words. The charter must be judged not in its dissected parts, not in its dismembered and mutilated clauses and phrases but it must be judged as an integrated body,

complete in its organs and functions. Judged by that standard, it is a monumental performance.

Mere Documents Cannot Preserve Peace

"Mere documents, language, and phrases cannot themselves prevent war and preserve peace. They must rest upon the will and the purpose and the desires of the peoples and nations of the world. Organization, however, promotes these objectives. It stimulates and quickens high purposes by the knowledge that others share those ends. Enlightened and compelling world opinion in behalf of law and justice and freedom and peace will give life and vigor to documents and charters.

Truman Urges Speedy Ratification

"The charter cannot have vitality, it cannot breathe, it cannot act until ratified by the Senate of the United States. The fate of the charter rests here in the Senate. No treaty can attain the force of law for our people until it passes the scrutiny and receives the sanction of this body. When it votes, it votes by authority of the people. Its action is not the individual action of each member. Its action is that of the entire citizenship of the Republic. President Truman will soon submit the treaty to the Senate and urge its early ratification. Without any desire to limit or curtail legitimate debate, I earnestly hope that the Senate will proceed to the consideration of the treaty at the earliest possible moment. It is my earnest hope that the Senate in its wisdom, with a high purpose to preserve the peace, not only our own peace but the peace of the world, and with a desire to serve all humankind, will give its speedy approval to the charter and thus give it impulse among the other nations of the earth.

"Early ratification here will stimulate and encourage ratification by other nations. The eyes of the entire world are centered on what we do here. Foreign nations know that the United Nations Organization for Peace and Security will face failure and futility unless the United States is a member. We face a high and solemn responsibility. The fate of world peace may depend upon our decision.

Those Who Object to International Cooperation

"Senators who object to international cooperation for any purpose will vote 'no.' Those who prefer that we go alone will reject the charter. It is my sincere belief that those who believe in cooperation with other nations in an effort to avert the horrors and miseries of war, to suppress aggression and conquest and to enthrone the rule of law and reason and justice in international relations will vote to ratify the treaty.

"While we never lost sight of the supreme objective or world peace and security, we do not neglect our national interests. The rights and sovereignty of the United States are not imperiled. We must remember, however, that world peace

will cost something. It is worth something. It will cost cooperation. It will cost the will to peace. The charter is not automatic. It must be supported. It will cost our constant efforts and influence in the cause of peace.

The Cost of War

"Twice in the span of a lifetime the world has been cursed by global wars. Millions of lives of the gallant and the brave have been sacrificed upon red and blazing battlefields or have been engulfed in the oceans' depths. Other millions have suffered privations, hardships, and starvation. Countless children have been orphaned, and misery and suffering have reached out into many lands. Some of the fairest regions of earth have been devastated. Unnumbered homes have been laid in ashes, and billions of dollars of wealth have been destroyed. The tragic war in which we are now engaged has spread its horrors to distant parts of the earth. There have been more marching men than composed the combined armies of Alexander, Hannibal, Caesar, Genghis Khan, Napoleon, and all of the other gory conquerors of the past.

"We have crushed Nazi Germany at a terrible cost in blood and treasure. Our heroic fighting men are now carrying victory over our brutal and savage enemy, Japan. Complete triumph is assured. Our banners shall wave over Tokyo. Such another world tragedy must not occur again. Our son' must not be sacrificed upon an altar of blood. War must be prevented before it breaks upon us in its bloody fury. Aggressors must be chained. The monster with a sword must be dethroned. The methods of peace must be enthroned.

Wars Can Be Prevented

"War can be prevented by international cooperation. In the charter we have endeavored to construct the mechanism to create that cooperation for peace. The 50 nations who have signed the United Nations Charter have pledged their honor to promote the cause of peace and to support the organization. The general assembly is an open forum for discussion and the formation of world opinion with power to make recommendations. The Security Council is a compact and powerful body charged with the duty of first invoking judicial and other peaceable measures in the settlement of disputes.

"Finally, it is invested with authority, if necessary, to preserve or restore international peace, to impose economic or military sanctions. The charter is the best document that the wisdom of the peace-loving nations of the world could devise. It is a noble beginning. It offers the world's best hope to outlaw war and to ordain peace. It is a star in the night. It is a gleaming beacon in a troubled and gloomy sky.... (*Vital Speeches of the Day*, Vol. 11, pp. 578-583.)

An Overview of the UN Charter

On July 9, 1945, the Senate Foreign Relations Committee began two days of hearings on the UN Treaty. Edward R. Stettinius, former U.S. Secretary of State was asked to appear before the committee. In his testimony, Stettinius said:

"You have asked me to appear before you as the first witness in your consideration of the United Nations Charter and the Statute of the International Court of Justice. I am honored to accept your invitation.

"One week ago today the President submitted the Charter to the Senate for ratification. May I also formally submit to you on his behalf the report which I made to him as chairman of the United States delegation at the San Francisco Conference. This report deals in detail with the results of the conference and is fully documented. It was prepared quickly because we felt it important that the full and specific information it contains should be made available to the Senate and the public at the earliest possible moment.

"I have been informed that the committee desires to begin the hearings by receiving from me an introductory statement summarizing the principal provisions of the Charter, and then to ask me such questions as the members may consider pertinent. I am prepared to make such a statement.

"First, however, I wish to make full acknowledgement of the great part taken by members of Congress, and particularly by members of the United States Senate, in making this Charter possible and in framing its provisions.

Charter Background Sketched

"The Connally and Fulbright resolutions, passed in the fall of 1943 by the Senate and the House of Representatives, respectively, expressed the will and purpose of Congress that the United States join with other sovereign nations in establishing as soon as possible an international organization to maintain peace and security.

"These resolutions, giving full support to the Moscow Four Nation Declaration, gave renewed impetus to the preparatory work which had been undertaken in the Department of State under the direction of President Roosevelt and Secretary Hull. Members of the Senate Foreign Relations Committee and of the House Foreign Affairs Committee participated in all these preparations.

"Their advice was constantly sought and was invaluable. In July, 1944, a United States draft proposal was completed as a result of this work. This draft, together with similar drafts, submitted by the Soviet Union, Great Britain and China, became the basis of the Dumbarton Oaks proposals, just as the Dumbarton Oaks proposals themselves became the basis of the Charter.

"Half of the United States delegation at the San Francisco Conference was composed of members of Congress. Your chairman, Senator Connally, and his distinguished colleague, Senator Vandenberg, acted as vice chairmen of the delegation. They played outstanding roles in the writing of this Charter. They were leading figures at the United Nations Conference and their contributions to its success did honor to themselves, the Senate and the country.

"I wish also to pay high tribute to Congressman Bloom and Congressman Eaton, who represented the House with such distinction, and to the two able and influential public members of the delegation, Dean Gildersleeve and Commander Stassen. Mr. Hull, whom President Roosevelt rightly called 'the father of the United Nations,' was not present, but we were in daily communication with him and his wise counsel was invaluable. Finally, President Truman, your colleague for so many years, guided our efforts with clear vision and a sure hand. His leadership contributed greatly to our success.

"From first to last Congress and the Executive Branch of the Government have worked hand in hand and with no thought of partisanship in this endeavor. The whole American people have also participated directly to an extent never approached before. The Dumbarton Oaks proposals were submitted to their scrutiny, criticism and advice seven months before the San Francisco Conference began, and the results of that public examination are reflected in many of the changes made at San Francisco. Forty-two non-governmental organizations, representing labor, agriculture, industry, the churches, veterans and other groups, were represented by consultants to the United States delegation at the conference. They, too, exercised an important influence in the construction of the Charter.

"This Charter is not the work of any single nation. It is the work of fifty nations. But the influence of the United States in the framing of its provisions has been of the utmost importance. I believe that this is due in a very large degree to the close working relationship developed between the executive and Congress, with direct participation by the public. This has made it possible for all America to speak more surely with a united and compelling voice in international affairs.

Purpose and Principles

"The United Nations Charter is both a binding agreement to preserve peace and to advance human progress and a constitutional document creating the international machinery by which nations can cooperate to realize these purposes in fact.

"The purposes of the United Nations are the maintenance of international peace and security; the development of friendly relations among nations based on respect for the equal rights and self-determination of peoples; cooperation in solving international problems of an economic, social, cultural and humanitarian character, and in promoting respect for human rights and fundamental freedoms for all.

"Members of the organization are pledged to carry out in good faith the obligations of the Charter. They are pledged to settle their disputes peacefully in such a way that international peace and security and justice are not endangered; not to use force or the threat of force against the territorial integrity or political independence of any state or in any other manner inconsistent with the purposes of the United Nations; to give the organization every assistance in any action it takes under the Charter, and to refrain from giving assistance to any state against which the United Nations is taking preventive or enforcement action.

"The organization is based on the principle of the sovereign equality of all its members. It is not authorized to intervene in matters which are essentially within the domestic jurisdiction of any state. However, a claim of domestic jurisdiction cannot be used to prevent enforcement measures by the Security Council in dealing with a threat to the peace, breach of the peace or act of aggression by any future aggressor.

Six Main Instruments

"The Charter provides six principal instruments for the realization of its purposes and principles. They are the Security Council, the General Assembly, the Economic and Social Council, the International Court of Justice, the Trusteeship Council and the Secretariat.

"The Security Council is both an enforcement agency and an agency to help nations settle their disputes peacefully in such a manner that enforcement measures may be unnecessary.

"The General Assembly is a forum for discussion and recommendation on any matter within the scope of the Charter.

"The Economic and Social Council is an instrument for the development of those international economic and social conditions essential to lasting peace.

"The International Court of Justice is an institution through which the principles of international justice and law may be developed and increasingly applied to relations between countries.

"The Trusteeship Council assists in the supervision of an international trusteeship system for some dependent areas.

"The Secretariat is the permanent civil service of the United Nations.

The Security Council

"The Charter places the major responsibility for the maintenance and enforcement of international peace and security with the Security Council. The

Security Council will not meet merely from time to time. The Charter provides that it shall function continuously and that its members shall always be represented at the seat of the organization.

"The Council has the duty of helping to bring about by peaceful means the adjustment or settlement of international disputes. These include such methods as conciliation, mediation, arbitration, judicial settlement and resort to regional agencies, as well as any other peaceful means the parties to a dispute may choose. If necessary the Council may itself recommend the terms of settlement, as well as methods of settlement or adjustment.

"Should these means fail, it is the duty of the Security Council to take whatever measures are necessary, including diplomatic and economic sanctions and the use of force, to prevent or suppress a threat to the peace, breach of the peace, or act of aggression.

"All members of the organization are pledged to accept and carry out decisions of the Security Council made in fulfillment of these duties. They undertake to make available to the Council, on its call, armed forces, assistance and facilities in accordance with special agreements which are to be negotiated as soon as possible between the Security Council and the member nations. It is specified that within the limits of these agreements national air force contingents should be immediately available for combined international enforcement action. The Charter provides that these military agreements shall be subject to ratification by the signatory states in accordance with their respective constitutional processes.

"There will also be a Military Staff Committee consisting of the chiefs of staff of the permanent members of the Security Council or their representatives to advise and assist the Council in its military requirements for the maintenance of international peace, the use of the forces at its disposal and in discharging its responsibilities in connection with the regulation of armaments. Thus the military collaboration of the Great Powers, which has been so important a factor in assuring victory, will be continued and developed for the purpose of insuring peace.

Council to be Ready Always

"When the military agreements have been made, the Security Council will be ready at all times under these provisions with effective means at its disposal for prompt action against aggression, or a threat of aggression.

"The relationship of regional security arrangements to the United Nations Organization is also established by the Charter. Because bitter experience has shown that a breach of the peace anywhere in the world may sooner or later threaten the security of all nations, the supremacy of the Security Council in enforcement measures to prevent aggression is established by the Charter, except as concerns the enemy states of this war.

"The Charter contemplates that the United Nations Organization may in time assume the responsibility for standing guard over the enemy state, but this responsibility is left for the present directly in the hands of the nations which have made victory possible in the present war. They will decide when to transfer this responsibility to the organization. The United States is, of course, one of the nations which retains this responsibility.

"While no regional enforcement action may be taken without the consent of the Security Council – except against enemy states – the Charter encourages the use of regional arrangements and agencies in the peaceful adjustment of local disputes. It also provides that should an armed attack occur against a member state, the inherent right of individual or collective self-defense may come into play until the Security Council has taken the necessary measures to maintain peace

"These provisions make possible the further development and strengthening of the inter-American system and its integration with the world system in such a way that the Act of Chapultepec can be put on a permanent basis in conformity with the Charter.

Voting Provisions

"The provisions for membership and voting in the Security Council agreed upon at San Francisco were so drawn up as to enable the Security Council to discharge, with the best chance of success, its responsibility for the maintenance of peace with justice.

"Five nations are given permanent membership in the Council – the United States, Great Britain, the Soviet Union, China and France. These nations possess most of the industrial and military resources of the world. They will have to bear the principal responsibility for maintaining peace in the foreseeable future. The provisions of membership recognize this inescapable fact.

"The five powers do not, however, form a majority of the members of the Council. Six members are elected by the General Assembly from among all the other United Nations This is the first of several checks and balances provided for in the Charter in order to safeguard the rights of smaller nations.

"The voting provisions for the Security Council also recognize the special powers and responsibilities of the great nations. A majority of seven members, which includes all five of the permanent members, is required in any decision by the Council for dealing with a dispute either by peaceful means or by enforcement action, except that a party to a dispute must abstain from voting in the peaceful settlement stage.

"There has been a great deal of discussion of these voting provisions and I should like to request permission to place in the record my statement of March 5,

1945, Mr. Grew's statement of March 24 and the interpretive statement by the delegations of the four sponsoring governments on June 7, all of which are on this subject. I think they will prove useful to the committee.

"The requirement for unanimity of the five great nations has been criticized because each of them can exercise a veto. I submit that these five nations, possessing most of the world's power to break or preserve peace, must agree and act together if peace is to be maintained, just as they have had to agree and act together in order to make possible a United Nations victory in this war.

"The question is asked: What would happen if one of the five permanent members used the unanimity rule to veto enforcement action against itself. The answer is plain. If one of these nations ever embarked upon a course of aggression a major war would result, no matter what the membership and voting provisions of the Security Council might be.

Charter Confers No Power

"The Charter does not confer any power upon the great nations which they do not already possess in fact. Without the Charter the power of these nations to make or break the peace would still exist. What the Charter does is to place special and binding obligations upon the great nations to use – in unity together for peace, not separately for war – the power that is already in their hands. The unanimity rule is an expression of those special obligations and of their commensurate responsibilities.

"With an important exception, the unanimity rule applies to peaceful settlement as well as to enforcement action, because any action toward settling a dispute peacefully may lead to the necessity for enforcement measures. Once the Council orders an investigation or takes a similar action in a dispute, it must be prepared to follow through with whatever further measures, including the use of force, may ultimately be necessary. And this must be clear to the states involved in the dispute. If it were not, the authority and prestige which the Council needs in order to secure peaceful settlements of disputes might be fatally weakened. That is why the five permanent members are required to agree and vote together from the beginning of any dispute on which the Council takes action.

"The power of veto does not, however, apply to consideration and discussion of a dispute by the Council before action is taken. Thus the right of any nation to bring a dispute before the Council and to obtain a hearing of its case cannot be blocked. Furthermore, no member of the Council – and this includes the permanent members – can vote in any decision involving peaceful settlement of a dispute to which it is a party. By this provision the five permanent members must submit themselves to the same processes of peaceful adjustment and settlement that apply to any other member nation.

"Additional checks are provided against abuse of their voting powers by the five permanent members. Any decision by the Council in either the peaceful settlement or enforcement stage requires at least seven votes. Thus at least two of the smaller nations of the Council must agree with the five permanent members before the Council can take action.

General Assembly Holds Power

"The Charter also provides that the General Assembly, where the five major powers possess no special voting powers, may make recommendations to the Council on any question relating to peace and security not being dealt with by the Council. It provides further that the Council must report at least once a year to the General Assembly on all measures it has taken to maintain peace. These provisions mean that the Council must act under the watchful eye of the whole organization and its members can quickly be held accountable before world opinion if they are derelict in their duty.

"There is still another and more compelling reason why the power of veto is not likely to be abused, or even to be exercised at all except in unusual circumstances. That is the compelling desire and need of the five great nations to work together for peace. Twice in thirty years they have been allies against aggression. Their common interest in preventing another war is fully as urgent as that of any other nation. Under this Charter they assume sacred obligations and heavy responsibilities for the maintenance of peace with justice. They do not assume these obligations and responsibilities lightly. They do so because it is in the vital national interest of each one of them to see that these obligations and responsibilities are fulfilled.

"I believe that I speak for the entire United States delegation when I say that the requirement for unanimity among the five permanent members, with the safeguards that have been provided, is not only essential to the success of the United Nations organization in the years immediately ahead but that it recognizes and confirms a power which a majority of Americans believe the United States should have in view of the great responsibilities our country must inevitably assume for the maintenance of world peace.

"The special position of the United States and the four other permanent members of the Security Council is also recognized in the provisions for ratification both of the Charter and of later amendments to the Charter.

"The Charter itself will come into force when it has been ratified by the five permanent members of the Council and a majority of the other signatory states. Amendments will come into force when they have been adopted by a two-thirds vote of the General Assembly or of a special conference called for the purpose and have been ratified by two-thirds of the member states, including all the permanent members of the Security Council.

Amendments Unlikely

"It should be noted that there is no power of veto over the adoption of amendments. The Security Council does not vote on amendments at all. The power of veto applies only to their ratification by the nations concerned.

"In practice no important amendments to the Charter are likely to be adopted in the near future unless there is unanimous, or virtually unanimous, agreement upon them and ratification is regarded as assured. The General Assembly is not a legislative body. It is an international meeting of the representatives of sovereign nations. The act of voting on an important matter, therefore, is not likely to take place until all the means of adjustment usual in negotiations among nations have been brought to bear in order to reach a common viewpoint. At the San Francisco Conference there was no veto and the two-thirds rule applied. Yet the provisions of the Charter were adopted unanimously.

"I feel that much of the criticism of the voting provisions of the Charter arises from failure to remember that the United Nations is neither a federal union nor a world state and that voting procedures among its sovereign member nations cannot necessarily be judged on the same basis as voting procedures in a State Legislature or in the Congress.

"As the peoples and Governments gain experience and confidence in world organization in the years ahead I hope that they will learn to apply and adapt to international affairs many more of the principles and techniques of democracy. But I believe it would be fatal to this hope if we were to attempt now to go beyond what the nations are clearly ready to undertake today. The Charter affords full opportunity for later amendments whenever a sufficient majority of the people of the world is ready to go farther.

The General Assembly

"Just as the existing distribution among nations of the power to maintain peace is recognized in the provisions for the Security Council, so the principle of the sovereign equality of all member states is recognized in the provisions for the General Assembly. In the General Assembly every member nation, large or small, has one vote.

"It is the function of the General Assembly to develop in practice those friendly relations among nations based on respect for the principle of equal rights and self-determination of peoples, which is declared as one of the objectives of the United Nations.

"The General Assembly may discuss and make recommendations either to the Security Council or to the members on any matter within the scope of the Charter. It may call to the attention of the Council any situations likely to endanger the

peace and make recommendations on any questions relating to peace and security not being dealt with by the Council. It will receive and consider annual and special reports from the Security Council, the Economic and Social Council, the Trusteeship Council and the Secretary General.

"The General Assembly has the further power to recommend measures for the peaceful adjustment of any situations, regardless of origin, likely to impair the general welfare, including situations resulting from violation of the purposes and principles of the organization. This is one of the most important provisions in the Charter for peaceful change and for the correction of injustices present or future.

"Because the United Nations is an organization of sovereign states, the General Assembly does not have legislative power. It can recommend, but it cannot impose its recommendations upon the member states. It has, however, virtually all the other powers of a free deliberative body. Senator Vandenberg has justly characterized it as the town meeting of the world. Its authority is sufficient to make it effective as the keeper of the world's conscience and as the watchman over the international behavior of every member of the United Nations and over the other agencies of the organization.

"One of the principal purposes of the United Nations is the removal of the economic and social causes of international conflict and war. Responsibility for discharging the functions of the organization in this connection is vested by the Charter in the General Assembly and, under the Assembly's authority, in the Economic and Social Council.

"In its chapters on economic and social cooperation the Charter spells out in more detail the economic and social purposes of the United Nations. These include the promotion of higher standards of living, full employment, and conditions of economic and social progress and development; solutions of international economic, social, health and related problems, and international cultural and educational cooperation. The Economic and Social Council is also charged, under the General Assembly's authority, with the principal responsibility for promoting universal respect for and observance of human rights and fundamental freedoms for all without distinction as to race, sex, language or religion.

Economic and Social Council

"The Economic and Social Council will consist of eighteen members elected by the General Assembly.

"In the field of its responsibility the Economic and Social Council has the power to make studies, reports and recommendations, to prepare draft conventions for submission to the General Assembly and to call international conferences.

"Subject to the General Assembly's approval, it is empowered to make agreements with specialized inter-governmental agencies concerned with international trade and finance, labor, agriculture and other related fields in order to bring them into relationship with the United Nations Organization as a whole and to make recommendations for coordinating their activities. It is then authorized to obtain regular reports from these agencies on their work and on the steps they have taken to give effect to its recommendations or those of the Assembly.

"The Economic and Social Council will also set up a commission for the promotion of human rights, commissions in economic and social fields and such other commissions as may be required. The commission on human rights will have the power to prepare an international bill of rights for submission to the member states for approval.

"Like the General Assembly, the Economic and Social Council has no power to impose its recommendations on the member states. But, as I reported to the President, this "power to study and report and recommend – and the power to call conferences and prepare draft conventions and require reports of progress – is a power which can be counted on to go a long way towards translating humanitarian aspirations into human rights.

"In the next ten or fifteen years, the work of the Economic and Social Council and its related agencies in helping to restore a shattered world and to achieve better living conditions for all peoples will be of paramount importance. If the United Nations cooperate effectively toward these ends they will have gone far toward eliminating in advance the causes of another world war a generation hence. If they fail, there will be instead widespread depressions and economic warfare which would fatally undermine the world organization. No provisions that can be written into the Charter will enable the Security Council to make the world secure from war if men and women have no security in their homes and in their jobs.

International Court of Justice

"The fourth major instrument of international cooperation for which the Charter provides is the International Court of Justice. The Court provides the means by which international disputes of a legal character can be settled 'in conformity with the principles of justice and international law,' as stated in the purposes of the United Nations. The Charter states the general rule that such disputes should be referred to the International Court. The statute of the International Court, which is annexed to the Charter, does not provide for compulsory jurisdiction. It does, however, include an optional clause under which members of the United Nations may agree in advance to submit all their justiciable disputes to the Court for settlement.

"The Charter provides that whenever disputes are referred to the Court its decisions shall be binding on the parties and that any member of the United

Nations, party to such a dispute, must comply with the decisions of the Court. If it fails to do so the matter may be brought to the attention of the Security Council for appropriate action.

"The International Court will also have a most important part to play in the further development and strengthening of international law, just as the courts of England and America have helped to form the common law. The Court will be the subject of separate testimony before this committee by Mr. Green Hackworth, legal adviser of the Department of State, and our member of the committee on the Court at San Francisco.

Trusteeship System

"In addition to these four overall instruments of international action the Charter includes a declaration of principles and purposes regarding all non-self-governing territories and provides for an international Trusteeship System under which some of these territories may be placed by later agreement.

"In the general declaration the member nations accept as a sacred trust the obligation to promote to the utmost the well-being of the inhabitants of all dependent territories over which they have responsibility. They are pledged to insure the political, economic, social and educational advancement of such peoples and to assist them in the 'progressive development of their free political institutions.' They are pledged to develop self-government for all dependent peoples.

"I wish to emphasize that this pledge includes the right to independence for those peoples who aspire to it and are able to exercise its responsibilities. That was the view of the United States delegation, and the Committee on Trusteeship at San Francisco unanimously concurred in that interpretation.

"This declaration of international obligations regarding all dependent peoples is the first of its character in the history of international relations. No similar obligations were assumed under the Covenant of the League of Nations, which provided only for a mandate system applicable to territories and colonies detached from Germany and Turkey after the last war.

"The international Trusteeship System of the present Charter will apply to such territories as may be palmed under its by later agreements among the states directly concerned. The Charter itself does not place any territories under trusteeship. The trusteeship agreements may apply to territories now held under mandate, territories taken from enemy states as a result of the present war, and other territories voluntarily placed under the system.

Trusteeship's Objectives Stated

"The objectives of the trusteeship system include the political, economic, social and educational advancement of the dependent peoples concerned and their development toward self-government or independence, together with encouragement of respect for human rights and fundamental freedoms. These provisions constitute another long step forward from the League of Nations mandate system.

"A Trusteeship Council is created to assist the General Assembly in carrying out the functions of the United Nations with regard to trusteeship agreements for all areas not designated as strategic. Membership in the Trusteeship Council will be divided equally between those United Nations administering trust territories and those which do not, but it must include the five permanent members of the Security Council. Annual reports for each non-strategic trust territory must be made to the General Assembly on the basis of a questionnaire prepared by the Trusteeship Council.

"Strategic areas may be designated in trusteeship agreements and in these areas all functions of the organizations are to be exercised by the Security Council, with the assistance of the Trusteeship Council.

"Both the War and Navy Departments participated fully in framing the trusteeship provisions of the Charter. Furthermore, both departments have certified that they are of the opinion that the military and strategic implications of the Charter as a whole are in accord with the security interests of the United States.

"No commitment is made to place any particular area, strategic or non-strategic, under the trusteeship system. The Charter thus leaves for future determination to what extent and under what terms islands in the Pacific which are taken from Japan at the end of the present war are to be placed under the trusteeship system. Any agreement into which the United States might enter to this end would have to be on terms satisfactory to us.

International Secretariat

"The Charter names the secretariat as one of the six principal organs of the United Nations together with the Security Council, the General Assembly, the Economic and Social Council, the International Court of Justice and the Trusteeship Council. The Secretary General is appointed by the General Assembly upon recommendation of the Security Council and is the chief administrative officer of the organization. The Charter provides that the Secretary General and the staff of the International Secretariat "shall not seek or from any government or from any other authority and shall be responsible only to the organization so that they may be international civil servants.

"These, gentlemen – in summary – are the main provisions of the United Nations Charter. In my report to the President you will find a much fuller exposition. The Charter is not, of course, a perfect instrument. I am sure it will be improved with time as the United Nations gain experience in its application. But I believe it offers to the United States and to the world a truly effective instrument for lasting peace.

"The purposes and principles of the Charter are those in which the great majority of the human race believe. The principal agencies which it will create – the agency for law enforcement, the public meeting, the court of justice and the center for economic and social progress – are those which all self-governing peoples have developed and learned to use in their own affairs. The powers given to these instruments in the international field are those with which the most thorough possible consideration has shown the nations are now ready to endow them.

"In short, the course which is charted by this document is one which I believe to be within the capacity of the nations at this period of world history to follow and it is a course which leads in the direction of our highest aspirations for human advancement in a world at peace.

"I believe our experience at San Francisco offered a convincing demonstration that this Charter can be made to work. Much has been written about the disagreements at San Francisco. Actually, the area of agreement was always vastly wider than the area of disagreement. Attention was naturally directed to the differences among us because neither the five Major Powers, nor the committees of the conference, took up their time on all those matters about which they were already in agreement. What was significant about the conference was this – the differences were resolved and a Charter for a strong and effective organization was unanimously adopted. I believe the five Major Nations proved at San Francisco beyond the shadow of any doubt that they can work successfully and in unity with each other and with the other United Nations under this Charter.

"In that firm belief I have come to testify before you today in favor of ratification of the Charter by the Senate of the United States. No country has a greater stake than ours in a speedy beginning upon the task of realizing in fact the promise which the United Nations Charter offers to the world. (*Vital Speeches of the Day*, Vol. 11, pp. 588-593.)

U.S. Senate Ratifies UN Treaty

The U.S. Senate ratified the UN Treaty on July 28, 1945 and America became a major player in the international arena. There was very little opposition to the U.N. The forces of internationalism had done their job remarkably well. In just twenty-six years, the elite in America had nearly captured the minds of the American people and the UN Charter and the Bretton Woods System were pushed through

the U.S. Senate with little opposition. Two world wars and a great depression had worn down the resolve of the American people to uphold its free institutions and national sovereignty. The UN committees, the Foreign Policy Association, Council on Foreign Relations and a host of other organizations in the U.S. had successfully weaned the American people from the U.S. Constitution and its basic principles, including the doctrine of neutrality. The United States was now an official part of a growing international system designed and implemented by the Eastern Establishment and the elite financial powers of the Western World.

Dangers to the American System of Government

Let us now look at several speeches made by leading opponents of the UN system. On April 15, 1952, O. R. McGuire, an attorney in Washington, D.C., spoke to the Continental Congress of the Daughters of the American Revolution. In a speech entitled, "The American Way of Life and the United Nations: Dangers to Our System of Government," he stated:

"The subject assigned to me this evening by your efficient and charming National Chairman is: 'The American Way of Life and the United Nations.... It may add to clarity of thought on the subject for me to first define what I understand to be the American Way of Life, even in its present abbreviated form. Also, it would be well for us to realize the character of the United Nations' organization.

The American Way of Life

"The American Way of Life as it was conceived by our forefathers is indeed of ancient origin. Looking back over the recorded history of some 5,000 years, the representatives of the diverse populations of the original Thirteen Colonies, who assembled in Philadelphia in 1776, epitomized their conception of what they hoped the American Way of Life would be in the noble words of the Declaration of Independence:

"'We hold these truths to be self-evident; that all men are created equal; that they are endowed by their Creator with certain unalienable rights; that among these are life, liberty and the pursuit of happiness. That to secure these rights, governments are instituted among men, deriving their just powers from the consent of the governed.'

The Blessings of Providence

"These forefathers of ours, from whose inspiration came the Declaration of Independence and whose deathless valor made that Declaration good on the battlefields from the Plains of Abraham to the swamps of South Carolina, were Godfearing people. They knew the record of the heartless, ruthless and bloodthirsty Herod, as the head of an all powerful government, ordering the destruction of every male child in the hope of destroying the infant born in a manger at

Bethlehem and hailed from the skies as the savior of mankind. They, too, knew full well of His death on the cross in vindication of the verity that all individuals are created equal before our God and that each has a personal responsibility for his own eternal salvation or eternal damnation. This individual dignity, worth and responsibility of man, under the grand scheme of the Ruler of the Universe, was unknown until the man of Galilee began His ministry. It was not made a tenet of secular government for more than 17 centuries, during which mankind wandered in the wilderness of totalitarian governments. It was a long, long journey from Calvary to Independence Hall in America – but the men and women of the Revolution made the journey. Pilgrim, Puritan, Quaker, Catholic and those of the several evangelical faiths, Englishman, Frenchman, Dutchman, Swede, Spainard, all ever mindful of their personal dependence upon their Maker, fell upon their knees when their feet touched American soil and gave thanks to their God for His goodness in permitting them to reach these shores. They severally came here seeking a land in which they might live a life of dignity, worth and responsibility with their God and finally, in time' they created a government to protect each and all in such a life.

No Model to Follow

"These forefathers of ours builded slowly they did not seek to build here an Utopia; they had no model among all of the governments of past history which they could use; and in many instances it required generations, from 1609 to 1776, for them to become tolerant of those of different religious faiths and nationalities, though in a few instances tolerance prevailed from the outset, notably in Maryland, Rhode Island, and Pennsylvania. So comparatively rapid had been that growth in mutual tolerance and in the belief that secular governments should respect individual worth, dignity and responsibility that they came together, with both fierceness and deep humility in their respective hearts, to repel the attempts of England to impose on them the governmental regimentations then prevailing under all powerful governments, not only in England but throughout the known world.

Declaration of Independence

"For the first time since the dawn of recorded history these forefathers of ours threw at the startled rulers of these all powerful governments, in which the ordinary individual was but a pawn of kings and emperors, having no rights their rulers were bound to respect – a document solemnly declaring that all governments among men derived their just powers from the consent of the governed and that such governments existed to secure the equal rights received from their Creator to life, liberty and the pursuit of happiness. We of this day little realize the shock with which the rulers of Europe received such revolutionary doctrines from the American wilderness. This indictment of despotic governmental power sought to be imposed on the American colonists and the statement of the unalienable rights of men bestowed by their Creator was no mere pious resolution; to its vindication

the signers solemnly pledged to each other their lives, their fortunes and their sacred honor. Many of them lost both their lives and their fortunes, but none of them lost their sacred honor in making good that Declaration of Independence on the field of battle.

A Great Document in the History of Human Liberty

After some eight long years of war, the victory was won, despite the hunger and cold our forefathers had to endure and despite the fact that a considerable number of their fellow Americans turned Tory and would not support, but vigorously opposed, the Declaration of Independence. So jealous were the victors of their liberties and so fearful were they that any central government would jeopardize such liberties that they tried to get along with the Congress of the Confederation, rightly referred to as that "Rope of sand". The Articles of Confederation proved to be too weak to protect the people. Their representatives again journeyed to Independence Hall where they wrote, adopted, and recommended the approval by the people of the Constitution of the United States. This great document in the history of human liberty stated its purposes in a Preamble, in noblest words of the English language save only those of Holy Writ and the Declaration of Independence. These are the words of the Preamble:

"We the people of the United States, in order to form a more perfect union, establish justice, insure domestic tranquility, provide for the common defense, promote the general welfare, and secure the blessings of liberty to ourselves and our posterity, do ordain and establish this Constitution of the United States of America.'

Bill of Rights

"When this new Constitution went under consideration in the several thirteen States for ratification or approval, the representatives of some of the States were not satisfied that the just powers of the government to be established thereunder would protect the life, liberty and happiness of individual citizens from the rapacity the people knew had existed in all rulers, whether ruling by claimed Divine Right or by consent of the governed. They knew, too, that the greatest problem of all government is to make it strong enough to control the governed and yet weak enough to control the governors, the rulers. Therefore, there were proposed as amendments to the Constitution further protection for individual rights and these ten amendments became a part of the Constitution as our Bill of Rights.

The Concept of Limited Government

"It has been stated, and truly, that our American form of government is in form a veritable lattice work of barbed wire entanglements thrown around every governmental official in the land and intended to prevent them from using their necessary tools of government to destroy what they, as servants of all the people,

have been hired to preserve. Our forefathers sought to, and did, make sure that the rights of any individual could be maintained against other men who would subvert such rights, and they also made sure that these same rights could be asserted and maintained at all times against the power of government itself. These forefathers knew that it is the nature of every government to resent and resist this last assertion by the individual of his rights against the government as an affront to its sovereign dignity. Therefore, the architects of our governmental system tied it down into its proper place – the exercise of just powers by the consent of the governed – by a system of strong checks and balances. In addition to the Bill of Rights and the limitations in the Constitution on the power of the Federal government, these founding fathers limited the Federal government by the State governments and the state governments by the Federal government. Also, they limited each of the three branches of both the Federal and state governments by the other two branches of each government.

Elite Seek to Change U.S. Constitution

"Is it any wonder that some, even in high places, have sneered at our form of government as a relic of the horse and buggy days and that the eager-beavers, who know little about and care less for the history of our constitutional system, would streamline it so that it could render more prompt and efficient public service – along the lines of the governments presided over by tyrants since time began. These eager-beavers and I use the word interchangeably in this connection for the shorter word 'fools', argue that their streamlined government would have the protection of frequent and free elections. The answer is that in the hands of totalitarians elections are neither free nor frequent. I call to witness Italy under Mussolini; Germany under Hitler; Russia under Lenin and Stalin; and last but not least, England under the socialists. The American form of government has existed alongside of these foreign governments for many years. You may make your choice. In the meanwhile, you may continue to pay from 25% to 95% of your income in taxes to be used in part for further American relief under new and more generous, or disguised 'Marshall Plans' for further relief of England and the other misnamed 'democratic' nations and the world! How that word 'democratic' rolls off the tongues of our learned and distinguished diplomats and politicians, even when they refer to Communistic Russia!

A Republican Form of Government

"Even today ours is a Republican form of government, not a democratic form government – despite the efforts of pollsters and others to make it a government as the result of nose counting. Also it is indisputable that the unique character of our government and its resulting unique American Way of Life at its inception and for many years thereafter are grounded in a publicly acknowledged belief in a Supreme Ruler of the Universe and the equality of mankind before God. Being equal in spiritual things, our forefathers endeavored to secure that equality under

our secular government. While the people of a country may have spiritual equality without having legal equality under government, it is certain that they may not continue to have legal equality under government without a firm and militant belief in their God. As late as 1892, the Supreme Court of the United States rendered its opinion in the *Church of the Holy Trinity* case, (143 U.S. 457), wherein it said:

"This (the United States) is a religious people. This is historically true. From the discovery of America to this hour there is a single voice making this affirmation.'

America Is a Religious Nation

"Then the Court reviewed the basic documentary history of this Republic, the charters, commissions and official proclamations and finally the Constitution itself. It then said:

"There is no dissonance in these declarations. These are not individual sayings or declarations of private persons; they are organic utterances; they speak the voice of the entire people.... There is a universal language pervading them all having but one meaning; they affirm and reaffirm that this is a religious nation.'

Elite Bring about Major Change in U.S. Constitution

"It is to be emphasized that the highest court in this land thus spoke in 1892, or sixty years ago. That was long before we made basic changes in our form of government by the adoption of the 16th amendment, pursuant to which you are now 'privileged' to pay from 25% to 98% of your income in taxes to the Federal government, alone, and our sons are drafted to fight the battles of the world on the land, on the seas and in the skies. That was also before we had concluded that United States Senators, instead of being elected by the state legislatures to represent in Congress their respective states of the Union and act as checks on temporary majorities should be elected by popular vote and fully responsive to such majorities.

Framers Sought to Protect Natural Rights

"To summarize my understanding of the American Way of Life, as it was written into the Constitution of the United States and as it existed for better than two thirds of our national existence, the equality of man before God was the inspiration of our forefathers for making man equal before the law under the Constitution of the United States and sought to guard that equality by an elaborate system of checks and balances as limitations and restrictions on the power of government. It was because all individuals had been endowed by their Creator with unalienable rights, including life, liberty and the pursuit of happiness, that our forefathers sought to provide that no earthly power could take such rights away from even the smallest of the people. As God had created each individual with

personal and immortal destinies, our forefathers sought to provide that no man, no majority, and no government could treat or regard any American as a part of a class, collective, or otherwise than as an individual.

The American Ark of Our Covenant

"It was precisely because of this American Way of Life, the 'Ark of our Covenant' both with God and with generations yet unborn, the basic tenet of our American Faith, that our Country offered such dignity and freedom to the individual that it became the haven to millions seeking to participate, for themselves and their families, in the benefits of our form of government in preference to all other systems of government in the world, both of yesterday and of today. The vast majority of these immigrants in past years have been of great value to our system of government. They had experienced at first hand, under the governments from which they fled, that no combination of purely materialistic forces on earth could, or would protect the lives, liberties, and pursuits of happiness of their peoples, or compel by law that men and women should do unto others as they would that others do unto them. On the contrary, they had experienced the phenomenon that power corrupts, and that absolute power corrupts absolutely; that any combination of materialistic forces acting as a government results in fatal corruption of both the government and the citizen. They knew from experience that when God is not in government, the tyrant rules.

Washington's Farewell Address

"I remind you of the words of the great Washington in his farewell address – that great captain of history who led Our forefathers to victory in the revolutionary war, whose great character and leadership contributed more than any other individual to the formulation and adoption of the Constitution, and whose presidency for eight years guided the infant footsteps of our nation – as he warned those generations of Americans who were to come after him:

"Of all the dispositions and habits which lead to political prosperity, religion and morality are indispensable supports. Reason and experience both forbid us to expect that natural morality can prevail in exclusion of religious principles."

Divine Guidance of America

"Along with literally millions of Americans of 1892 and of today, I accept as verities the statement by President Washington and of the Supreme Court of the United States in the *Church of the Holy Trinity* case, verities established by the fact that this nation made such advances, both spiritually and materially, as no nation of peoples ever experienced in the history of this world – such advances as could not have been made without Divine Guidance!

"We come now to a consideration of the United Nations' organization. As is generally known, this organization was sired at Yalta, in a conference attended by three men: Franklin D. Roosevelt, Joe Stalin and Winston Churchill and their flunkies, including one Mr. Alger Hiss. The organization charter was first unfolded to public scrutiny at San Francisco shortly thereafter, where our Secretary of State, Mr. Acheson so handled the parliamentary situation that no amendments were made and not one "i" was dotted nor one "t" crossed. This charter was adopted, after perfunctory debate, which some thought would be a Constitution for the World but which has been proven to be a license for unmeasured mutual vilification by some representatives of the opposing factions, the two groups of nations with seemingly irreconcilable systems of government. The American Way of Life may not be reconciled with either one.

U.S. Government Carefully Drafted

"The Constitution of the United States, when it was proposed, was intended for theoretically independent sovereign States. The charter was likewise proposed and adopted for sovereign states. But the contrast is tremendous between the procedure followed in formulating and adopting our Constitution and previous to that, the Declaration of Independence, and the formulation and adoption of the Charter for the so-called United Nations. Every phrase and clause, even words proposed for incorporation in our Constitution were ably debated and redebated. Many were rejected and most were amended and changed. Even after the Constitution had been completed in Philadelphia, it was subjected to thorough study and debate in most of the conventions of the States which ratified it. A complete Bill of Individual Rights was added to this document as the results of the ratification debates, notably the debates in the Commonwealths of Virginia, Massachusetts and Pennsylvania.

U.N. Charter Prepared at Secret Meeting at Yalta

"Not so the charter of the United Nations. The three principal rulers of three principal nations met on the shores of the Black Sea in secret conclave, attended by their staffs. One of them was a very sick man. Another was the despotic ruler of the most totalitarian nation on earth and the other was a prime minister of a nation ruled by a legislature exercising unlimited power and which nation subsequently placed the socialist party in power with resulting nationalization of most of its principal industries and austerity for its people. A few finishing touches may have been added at Potsdam but as to what actually took place at these secret conclaves we do not know. Presumably the principal agreements were written into the Charter in our own State Department with Mr. Hiss acting as one of the draftsmen.

"But, whatever else the organization may be, it is most certainly not a union of the nations of the world. The nations which are members are not acting with any degree of unity. The proof is that war is now raging in Korea and in Southeast Asia

– aided and abetted and supplied in large part by Josef Stalin on the side of the communistic forces and by the United States on the side of the noncommunistic forces.

Communists Seek to Destabilize Nations

"The emissaries of Josef Stalin, with their treacherous and heathenish practices, are in every noncommunistic nation of the world today. They are busy stealing military and diplomatic secrets; stirring up trouble among racial and religious groups; and making traitors of citizens of such countries. No secret is made of the object and purpose of Josef Stalin and his politburo – it is to destroy all existing governments and establish in their stead government by a class. the proletariat, subordinate to the men in the Kremlin. Those emissaries are in the United States, preaching the destruction of our government by force and violence; some are even in our government itself, though many have been driven from it. These emissaries have stolen military secrets from our government, even the most closely guarded, such as those pertaining to the atom bomb.

Emissaries of Stalin Use Freedoms in America to Promote Their Nefarious Acts

"But these emissaries ... do not hesitate to invoke the protection of individual liberties in our Constitution when we catch them in their nefarious acts.

"The communistic concept of government is that of Karl Marx. He and the communists utterly and completely reject the conceptions of government as stated in our Declaration of Independence and in our Constitution. According to Marx and the communists the government is everything; man is as nothing. God does not exist. Religion is an opiate and a delusion. Listen to Marx, and I quote:

"'The democratic concept of man is false, because it is Christian. The democratic concept holds that each man is a sovereign being. This is the illusion, dream and postulate of Christianity.'

A Godless Government

"A Godless, big government in which man is nothing is not peculiar to communism. It is common to all big governments, not founded on religion and morality. Adolph Hitler, the former head of the government of Christian Germany said:

"'To the Christian doctrine of infinite significance of the individual human, I oppose with icy clarity the saving doctrine of the nothingness and insignificance of the human being.'

"European and Asiatic governments in the days of both Marx and Hitler, and now, were and are big and powerful governments, not founded on principles of religion and morality and in none of them does the individual have any rights which such governments are bound to respect.

"I now come to the question as to what possible effects may we expect on our system of government by our membership in the United Nations organization and by the association of our hired servants, our 'rulers' as some of them believe themselves to be, with the representatives of the other members of that organization. I think the only answer is contained in the one word, 'Bad'!

The Iron Curtain Falls upon Nations

"The men of the Kremlin have recognized, and have proceeded on the principle, that our form of government, diluted as it is from the original concept prevailing until the 1930's, may have a bad effect on their peoples. The iron curtain has literally come down around the communistic countries and even our accredited diplomats are not permitted to travel beyond a limited circle around their posts of duty. The peoples of that country are not permitted to associate with our representatives. In view of the disclosures that have been made by investigating committees of our House and Senate; the trial and conviction of both aliens and some of our natives for actions in connection with communism; and the disclosures which have been made of the infiltration of Reds into our moving picture companies, the editorial and reportorial staffs of our newspapers and magazines; in our government departments and establishments; in our military and naval services, at least among some civilian employees thereof, can we do less than place the same restrictions on agents of the Kremlin in the United States that they place around our people in Russia: I think not.

Elite Seeking to Destroy American Government

"But aside from these dangers from communism, there are today far too many of our people in our midst who are antagonistic to the basic principles of our system of government and who insist upon practices and procedures which will complete the destruction of that government. If that be not true, then how shall we account for the following:

"(1) The preparation by a committee of the United Nations, on which American representatives served, of a so-called genocide convention, now before the United States Senate for ratification, which would permit the trial of citizens of the United States for alleged crimes committed in America without the safeguards of our American Bill of Rights ?

"(2) The similar preparation of the so-called Covenant on Human Rights which is in direct conflict with our own constitutional rights to freedom of worship, freedom of speech, and freedom of peaceful assembly. They are now unlimited, in

so far as our Constitution is concerned, but under the Covenant there would be such 'limitations as are pursuant to law and are reasonable and necessary to protect public safety, order, health, or morale, or the fundamental rights and freedom of others'. The judges of these limitations, both as to time and extent, will be, of course, government bureaucrats. Also, this Covenant is a blueprint for communism.

Genocide Convention and Covenant on Human Rights

"Either one or both of these Covenants, If they should be ratified by the United States Senate, might destroy the rights of American citizens which the Declaration of Independence has stated to be an endowment of our Creator and in which we Americans firmly believe even though it may seem that at times we are bent on destroying them.

"We now have abroad in this land those who insist that a treaty ratified by the Senate may even change the Constitution of the United States – a doctrine I utterly reject but the fact that the doctrine exists is evidence of the danger confronting this nation from the exercise of the treaty making power.

"(3) It is a fact, though, that under other forms of Government, so-called "democratic" governments, a treaty may be entered into and become binding without the approval of the legislative body of that government. We have recently resorted to executive agreements of the utmost importance to our nation; these executive agreements have not been submitted to the Senate for ratification and it is claimed by high authority that they do not have to be ratified by the Senate.

"(4) In most, if not all, other governments, particularly in the totalitarian ones, their nations may be committed to war without any action being taken by the legislative bodies of such governments to declare war. The executive authority of such nations take the nations into war, even as did Hitler in World War II. Our troops were committed to battle in Korea, upon the executive fiat of the President of the United States, in the same manner without Congress declaring war. It has been claimed that the Korean struggle is not a war at all but a police action – in which we have had to date over 100,000 casualties, our costs have been several billions of dollars, and the end is not yet.

Executive Agreements Undermine Constitution

"The Senate approved the Charter of the United Nations for the United States, ostentatiously flown to Washington in a great fanfare of publicity. Opponents of that Charter could not be heard, and written protests were not even acknowledged. However, that same Senate has thus far refused to ratify conventions drafted by committees of the United Nations, though there have been no resounding objections which would result in a Senate disapproval of the Conventions. There have been no resolutions of the Senate or of the Congress condemning and

rejecting any possible liabilities under any so-called executive agreements, whether at Yalta, Potsdam or elsewhere which were not placed before the Senate for ratification and while there have been severe criticisms of the President for ordering the troops into battle in Korea without a congressional declaration of war, Congress has taken no negative action with respect thereto. On the contrary, it has authorized troops and money for the prosecution of that 'police action.'

"(5) Arbitrary exercise of power grows by what it feeds upon: Less than a week ago, after this address had been prepared, President Truman seized and commenced the government operation of all steel mills in the United States which had not entered into a contract or contracts with the CIO steel workers union. He, the President, has registered an oath in high Heaven to protect and defend the Constitution of the United States. There is not a single word in the Constitution which authorizes him to exercise such power to seize the steel mills. In fact, I am not alone in my belief that the seizure was in violation of the Constitution the President had sworn to protect and defend. Commenting editorially on this seizure one of the Washington newspapers stated that:

"If pretense is laid aside, it must be admitted that in this instance the President exercised the prerogatives of a dictator. If he can seize the steel industry, without any law on the books for that purpose, in order to impose on it the recommendations of a governmental board, he can likewise seize other industries and labor unions. Reckless use of such power could quickly destroy our constitutional system and lead us into some form of authoritarianism. Indeed, the very concept that the President has authority 'to do whatever is required' – to use Mr. Truman's own words – is totalitarian in nature. We must remember that this idea of an all powerful national leader in the White House is asserted at a time when we are not in a war declared by Congress.

"* * * In marshaling our strength to cope with aggression abroad there is no excuse for slipping into one-man government at home. By seeking an easy way out of its dilemma, the administration has done far more damage to the cause of freedom and representative government than even a strike would have done.'

"Such seizure and exercise of power by any official of the United States should be condemned in no uncertain terms and should forfeit all claims to public esteem.

Departures from the Concept of Republican Government

"In addition to the foregoing, we have followed the example of governments in the old world in a great number of instances urged by segments of the population of the United States and approved by the Congress, either expressly, implied, or by failure to do anything about it. These departures from the original conception of our government commenced at least 20 years ago. Among others, they are:

"1. The entire credit structure of our nation now rests very largely upon administrative decisions and regulations. More than half of all private homes are being built under guarantees of the United States Government, which means the collective guarantees of all the people, including those who have saved and worked to build and pay for their own houses.

"2. Approximately 15 million people of our nation, who with their families and dependents represent roughly one-third of the population, are now in receipt of government checks in one form or another.

"3. Until the adoption of the 16th Amendment, or income tax amendment in 1913, we had no income tax whatever, except for a short period during the War between the States and we had a comparatively small but manageable governmental organization. We now have such income tax rates as to be practically confiscatory of the high incomes and so high on modest incomes that the earners are in fact working from two to six days a month for the Federal government in addition to paying many hidden, or excise taxes and paying both State and local taxes. These taxes have long since passed the point of diminishing returns and we have had a demand upon the present Congress for a further increase in taxes by some 7 to 10 billions, not millions, of dollars. Not content with such taxes on the living, huge taxes are imposed on the estates of those who die from time to time and leave any appreciable amount of property.

"Whether designedly or not, the Marxian philosophy of high progressive income taxes and confiscatory estate taxes has been adopted by our Government and such taxes are having the effect Marx predicted of destroying private enterprise for lack of capital to keep it going. The substitute – RFC, mink coats and influence peddlers!

Efforts to Repeal the 16th Amendment

"In a last desperate effort to regain some of the power transferred to our Government by the 16th Amendment, 25 States of this Union have adopted resolutions demanding that Congress perform its constitutional duty in calling a convention to amend the Constitution by eliminating the 16th Amendment and substituting another which will place a ceiling on income taxes and entirely eliminate estate taxes by the Federal government.

"4. Spending by the United States Government has increased to such an extent during the past six years that the total expended in this short period is but little less than all of the money spent by our national government during its previous history back to, and including, the Administration of President Washington. Our elected representatives have gone on the greatest spending binge in the history of mankind; they have taken your and my earnings in the form of taxes and have not only used the tax money but they have borrowed vast sums on the credit of generations yet unborn to take the more abundant life to the peoples of the world, under various

and sundry guises but generally under the guise that by so doing we would contain communism and prevent it from engulfing the rest of the world.

Incredible Increase in Federal Spending

"The following fact may startle you, and is intended to do so: In 1938, Federal spending was equal in amount to the entire incomes of all individuals in the 11 Pacific and Rocky Mountain States and the estimated expenditures for that same government for 1952 equal the total estimated income of the people of all the 22 States west of the Mississippi River, as well as all of the State of Alabama and one-half of the State of Mississippi but in 1929, before the advent of the welfare state, the total expenditures of the Federal government were less than two-thirds of the income of the People of California, alone. The growth in Federal spending is not only stupendous since 1929, but it is frightening to all sensible people. Unless drastically reduced it means the destruction of our solvency – both as a Nation and as individuals.

Increase in Debt

"5. By the tremendous increase in debt and multiplication of credit, the value of the American dollar, which means the value of your savings, your insurance, your fixed income has been depreciated by 50 to 60% or more, or by the stupendous total of 116 billion dollars. Much of that not taken in taxes has disappeared in the depreciation of the value of our money and wherever that has happened in past history, the middle class has been wiped out entirely and the poor are made poorer. Do not take my word for it; look at socialist England and communist Russia of today and Hitler, Germany, of yesterday, to mention but a few recent examples.

"6. The bureaucracies of our government, Federal, State, and local have so increased that today there are more civilian employees in these governments, each being paid from tax funds or by borrowings, than there are soldiers in our Army, Navy and Marine Corps. The welfare state has grown to such proportions that it bids fair to engulf all principal governmental activities and center them here in Washington, D. C. A welfare state will inevitably lead to an even greater concentration of power in Washington; and even greater increase in government bureaucracy, and an even greater loss of liberty.

Socialism in the U.S.

"7. Approximately 20% of all electric power is being generated by the United States Government and sold in competition with privately generated power – which must, in the form of taxes, bear a part of the cost of government generation of power. Plans are being advocated which will more than double the present capacity of Federal generated electric power. We build dams on the publicly represented basis that they are necessary to control floods; then we place more land permanently under water than the floods ever did even temporarily; and we

construct power generating plants to utilize the water behind the dams; and finally, the taxpayers are required to carry the burden of constructing and operating steam generation plants to supplement the hydroelectric power.

"8. We impose direct taxes on both the employee and the employer to the extent of 3% of the monthly payroll. The money is paid into the treasury as a Social Security tax; then we spend the money for the general purposes of the United States and place a due bill in the Treasury for the money. What do you suppose will happen when the people, employee and employer alike, are called upon to bear yet higher taxes to pay the Social Security for which there are no social security funds? The answer is found in Germany which had a social security system from the time of Bismark to the surrender of Germany in 1945. Shades of our ancestors: who sought and found here an opportunity, a place in the sun, and did not seek to have their government support them!

"9. The level of farm commodity prices are determined or influenced by appropriations from the United States Treasury – exports of industry are largely financed by such appropriations – all scarce imported metals and rubber are stockpiled and under the control of the Federal government – all silver production is being purchased by the United States Government – that government is steadily increasing its holdings of land either by private purchase or condemnation – and Federal appropriations are subsidizing innumerable state projects.

Old World Theories Adopted in America

"Numerous other instances, practices and trends could be cited if my time permitted me to do so, wherein the Government of our forefathers has reverted to practices and burdens of the systems of big governments in the old world, which incidentally continue to exist there and from which our forefathers fled to this Country. However, I have cited enough to demonstrate to you that we have here today and now a government by regimentation and control, a government of exceedingly burdensome and confiscatory taxation, not vastly different from the regimentations and control which plagued mankind for more than 17 centuries. In fact, we have attempted and are even now attempting by use of Federal power the regimentation and control over wages and prices, notwithstanding we know full well that some 4,000 years ago the Kingdom of Babylonia prescribed in the Code of Hammurabi a rigid system of price controls which not only failed but completely smothered the nation. We also know that in the 4th Century, B. C., Athens, Greece, attempted to regulate trade in grain and decreed death to both trader and government inspector who violated the regulation. That, too, failed – probably because of a dearth of traders and inspectors after numerous executions. We know that the Edict of Diocletian in 301 A. D., was such a disastrous attempt to fix prices and wages that it impoverished the Roman empire. In England today they have price and wage fixing and they also have "austerity," having completely ignored a five-century similar attempt in that country, commencing in the 12th

century. After five centuries of failure, Parliament repealed the law because such action was necessary "in the interest of public welfare." Even as early as 1788 in this Country, the Continental Congress adopted a formal resolution wherein it was stated:

"It hath been found by experience that limitation in the price of commodities is not only ineffective for the purpose proposed, but likewise productive of very evil consequences, to the great detriment of the public service and grievous oppression of individuals.'

Elite Engineer the Destruction of Republican Government

"Unquestionably in the last twenty years the people of this Country have been busily engaged in removing the landmarks our Fathers set for us; with the unlimited taxation of incomes and estates made possible by the unlimited income tax amendment, adopted in 1913, and with the subservience of the Senate to pressure groups made possible by the direct election of these officers instead of election by the state legislatures; we have raised high the water-gate in the dam against big government in America and the subservience of the people to that government which had been the uniform lot of the peoples of the world until we established the American Way of Life. No careful student of government would be truthful with you if he did not tell you that the American Way of Life has been greatly restricted and circumscribed since the 1930's. The process bids fair to subvert our government to the ways of the old world governments and that soon.

Centralization of Power in Washington, D.C.

"Are we going to permit to continue this centralization of all government power in the hands of officialdom in Washington. That, of course, is the easy way, it is the line of least resistance, and to some, to those temporarily on the receiving end, it is most pleasant. But it has been the history of all governments, past and present, that in the end there is loss of liberty, austerity in living, struggles among classes, and finally governmental chaos. We are even here beginning to experience these things; the exceedingly high taxes paid on March 15th of this year, which, by the way, were in addition to the hundreds of hidden taxes you pay every day of the year, are but the beginning. We are having class struggles in America – labor arrayed against capital, the poor against the rich, and there are racial and other similar struggles going on. Some racial and economic groups are voting as blocks and politicians are making bids for these blocks of votes. Prophetic, indeed, is that commencement address delivered in 1923 here in this City by the late Glenn Frank when he declared that the world was then on the brink of a new Dark Age!

"In my humble judgment, the members of the Daughters of the American Revolution, if they would but do so, can place in motion the forces which are able to sweep the "money changers from the temple" of our faith) America needs, and must have a new birth of freedom if our Country is to escape totalitarianism and

final destruction. You have in your veins the blood of ancestors who visioned, established, and protected in its infancy our government under which the untrammelled American Way of Life thrived for a century or more. That is a very short period in the life of nations and much shorter in the life of mankind. But we do not have to experiment, as did our forefathers. We know that such a way of life is possible and that it can bring such happiness to individuals as no other system of government has ever done. Then, I ask you why do we hesitate? Why do we permit the continued adoption and existence of practices and procedures which have to a large extent already destroyed much of the American Way of Life and bid fair to destroy the remainder?

A Struggle between Tories and Patriots

"'Eternal vigilance is the price of liberty,' and these are no idle words. The necessity for religious principles and morality in our government is likewise no idle phrase. We are on the eve of a great assize – at which we shall elect a President and Vice President, one-third of the members of the United States Senate, and all of the members of the House of Representatives. We shall also elect numerous Governors and legislatures in the respective States. Every American must agree, if he is honest with his own best interests, to say nothing of being faithful to the faith of his forefathers, that our God and our Country must take precedence over any political party or hope of personal gain. The fight for return to the people the American Way of Life, to regain the parts thereof that have already been lost, is now underway in the United States. Once again we have a struggle between Tories and Patriots – between those who are heart and soul for the American Way of Life and those who prefer the totalitarianism of a godless government which has been the curse of mankind. The choice should not be difficult for the Daughters of the American Revolution and the many thousands of its membership could be responsible for the votes of at least ten million Americans – more than enough to decide the struggle now underway.

The Need to Follow Washington and Lincoln

"If you and I and every other patriotic American Citizen will follow Washington at Valley Forge and Abraham Lincoln in the White House to their knees and seek the strength, courage, and assistance of our God who has smiled on this, His government, and if we then will go among our fellow citizens, teaching and encouraging them, the result will be such a return to religion and morality in America that it has not known since the two greatest crises which have faced us – the days when all seemed lost in the Revolutionary War and in the War between the States. Then having won that victory in November 1952, we must be ever alive that the victory is secured and translated into unselfish benefit to Protestant and Catholic, Jew and Gentile, white and black – not because they belong to some block of voters but because they are American citizens, entitled alike to share

equally the benefits and equally the burdens of a government by the people, for the people, and of the people.

"If you will do this from now until after the November elections, you will return here next April – at least as happy as those who heard the pealings of the Liberty Bell atop Independence Hall nearly two centuries ago. Also, you will assist in saving our system of Government – 'the last best hope on earth,' said Lincoln. (*Vital Speeches of the Year*, Vol. 18, pp. 486-492.)

The Foundation of the American Republic Are Threatened

On May 20, 1952 Frank E. Holman, a prominent attorney from Seattle, Washington appeared before the Sons of the American Revolution. In a speech entitled, "The Constitution and the United Nations: The Foundations of the Republic Are Threatened," he said:

"Prior to the adoption of the United States Constitution 164 years ago (Sept. 17, 1787), never before in the course of history had any government anywhere been organized on the principle that the people, as individuals, are endowed by their Creator with certain inalienable rights as to life, liberty and property, including the right to local self-government, and that these rights are inherent in the individual and are not a grant from government.

"Therefore, in the history of the world, governments had *granted* freedom to the individual citizen and local self-government to the people, only if forced to do so or if the sovereign felt so inclined. The previous concept of the scope and power of a national government was that it had inherent powers of its own and might grant or withhold rights to the individual citizen as it saw fit. But by our Constitution and by our Bill of Rights only certain specific and limited functions were conferred upon the officials of our national government. It was to be a government of delegated powers only, and the people, by the Constitution, forbade and intended to forbid the federal government doing anything not authorized by the Constitution, and not permitted under the prohibitions of the Bill of Rights. There was no intention that the national government should have a reservoir of implied powers to change basic individual rights as fixed by the Constitution and the Bill of Rights or to embark upon a collectivist or a police state program or a World State Program, either through federal legislation or through international treaties and commitments or otherwise.

The Concept of Republican Government Is New

"We too often forget that the world moved on for many centuries without any understanding of or any apparent desire for such a form of government as our forefathers thought out, adopted and handed down to us. In truth and in fact as a form of government a constitutional and representative commonwealth or a republic is historically a recent development and still an unproved experiment.

Autocracy of every kind is opposed to representative and constitutional government, whether it be the autocracy of king and lords or the autocracy of Fascism, Naziism or of the proletariat, or the autocracy of state socialism based on paternalism, or the autocracy of executive power.

President Seizes Properties of Steel Companies

"We have just had an outstanding example of the exercise of arbitrary executive power by a President in the seizure of the properties of the steel companies. The President sought to justify his seizure on the ground that unless he had acted, the lack of steel production for the war effort (although he has declared the Korean situation not a war) would have created an intolerable national crisis. This, of course, is not true since he was authorized to invoke the injunctive provisions of the Taft-Hartley Act to stay the strike and during such period the Congress could have been consulted and could have enacted appropriate legislation. Under our form of government it was for Congress, the legislative branch, not the Executive, to evaluate the situation and pass necessary legislation to meet it.

The Basic Fallacy of the President's Position

"The basic fallacy of the President's position is the assumption that he has the sole and personal responsibility for determining what is best for the country in time of crisis and the power to by-pass the Constitution and Bill of Rights, and hence by-pass 'due process'. The President asserts that the seizure was highly distasteful to him but that in his opinion it was good for the country. This is the well-known historical excuse of all arbitrary assumption of power.

Republican Government Is a Complete Antithesis to Socialism

"The American experiment of a constitutional and representative republic is a complete antithesis to all ideas of personal and absolute governments. It involves no idea of executive dictatorship or legislative omnipotence nor any idea of class absolutism as in Communism, nor of mass absolutism as in a pure democracy, nor of caste as in oriental countries. Its fundamental idea is government by the consent of the governed, but with such constitutional guarantees and such checks and balances and such fixity, certainty and uniformity of law that no special privileges or immunities shall accrue to any citizen or class of citizens whether it be business, labor or agriculture.

Framers Prepared a Written Constitution

"Why did our wise forefathers adopt a written Constitution? The English had no written Constitution nor did any other country of that time. The so-called English Constitution had been built up through several hundred years by adding one precedent to another.

"Nor did the English ever adopt the concept of coordinate branches of government. Under the English system, Parliament – the legislative branch – became and has remained more or less omnipotent. Parliament can do anything that its majority for the time being may choose. It could and did condemn men for treason without what we call 'due process of law', and send them to execution and forfeit their property. The framers of the American Constitution believed that no man and no one body of men is wise enough to be entrusted with omnipotent powers and hence, they consciously placed limitations upon the power of Congress and also upon the power of the executive.

Framers Established a Limited Government with Separated Powers

"Many paper declarations of individual freedoms have been adopted from time to time in other lands even in Russia, but they have remained paper declarations. Why? Because to be effective they must be implemented with the practical machinery of an independent judiciary where the average citizen can have his day in court and protect his individual right to life, liberty and the pursuit of happiness. Without this free access to independent courts – independent both of the executive and legislative power – all our basic rights and freedoms would be mere high-sounding paper declarations of things to be hoped for, but largely dependent upon the executive and legislative will of the particular majority for the time being in power.

Constitutional Republic

"As Benjamin Franklin was emerging from the final meeting of the Constitutional Convention in Philadelphia in 1787, a woman in the crowd outside Independence Hall asked him what kind of a government they had set up for the country. He replied, 'A Republic if you can keep it.' Our forefathers, by and through the establishment of a Constitutional Republic, set up a government of law and not of men. But the present generation seems unaware that our government was intended to be a Constitutional Republic.

"Many of the present generation seem unaware that our government was intended to be a constitutional Republic and instead constantly refer to it as a Democracy. In a Republic, although as in a Democracy, the executive and all other powers of government are derived from the people and exercised through their elected representatives, unlike a Democracy a Republic is required to operate within the framework of constitutional guarantees and judicial precedents which are designed to protect the basic rights of all the people, even as against the wishes of the party or majority in power. Our founders clearly understood this difference between a Democracy and a Republic. They were fully familiar with the old New England town meeting which was a well-known form of democracy and under which Roger Williams was banned from Massachusetts because his neighbors did

not like his religion. History records many other instances of deprivation of personal liberty under a democracy.

The American Concept of Self-Government Is Threatened

"For several generations Americans have been justly proud of their economic and political independence and their right to govern themselves. Since the establishment of our government under the principles set forth in the Constitution, Americans, through the Congress and their various state legislatures, have made their own laws without foreign direction or interference. Now our right to self-government and the very integrity of the Republic is threatened by the so-called international 'Bill of Rights Program' of the United Nations.

U.N. Documents Based upon Civil Law

"More than a year prior to my election to the Presidency of the American Bar Association in September 1948, I concluded that among the most important issues facing the Bar and the American people were the legal and constitutional issues involved in these so-called 'International Bill of Rights' proposals. The Bar and the people and the press seemed strangely unaware of the grave and far-reaching nature of these issues. Therefore, I felt it my duty as President of the American Bar Association to discuss and analyze the so-called 'Declaration of Human Rights' and the proposed 'Covenant on Human Rights' and later the 'Genocide Convention'.

"When actually read and analyze, all of these United Nations proposals in the field of so-called 'Human Rights', follow the same pattern in that they are predicated on the un-American theory that our basic rights may be changed and modified and policed by international action, and our social and economic policies defined and fixed by international and economic policies defined and fixed by international declarations and treaties. In these matters the State Department during the early years of the United Nations succeeded in fooling many prominent Americans in both political parties – Republicans as well as Democrats – and many loyal Americans, including service clubs and various other organizations, into supporting the United Nations in all its works. It would have been one thing to support the United Nations insofar as it functions or tries to function as a collective security organization for open debate and for the adoption of measures to try to preserve world peace, but it was quite another thing for America to support the various United Nations Commissions and Councils whose objectives have been to dabble in the domestic affairs of all nations by trying to change domestic laws and customs – by drawing up declarations, covenants and pacts which in the case of America distort our basic rights and freedoms under our own Bill of Rights and which undertake to impose a collectivist form of government and a collectivist economy on all nations of the world, including ourselves.

Treaties Change Domestic Law in America

"Ordinarily, and until the organization of the United Nations, not only the average citizen but most lawyers took very little interest in treaties between the United States and foreign countries. But Article VI of our Constitution provides that:

". . . all treaties . . . shall be the supreme law of the Land . . . any Thing in the Constitution or Laws of any State to the Contrary notwithstanding."

"Influenced by this the constitutional effect of treaties – the Courts in California have already changed and nullified the law of that State without the people of the State, through their legislature or otherwise, having anything to say about the matter. The United Nations Commission on Human Rights proposes to change domestic law everywhere.

"For example, the State of California for many years had a law prohibiting mixed marriages and also a law prohibiting aliens from owning land. (Some states, like Washington, have constitutional provisions against aliens owning land.) The California courts, directly influenced by the United Nations Charter providing for 'racial equality', have now held mixed marriages valid in that State – (*Perez v. Lippold*, 198 P. 2d 17) and that aliens may own land – (*Fujii v. State*, 217 P.2d 481).

Fujii Case

"The final decision of the Supreme Court of the California in the *Fujii* case makes very interesting reading. That Court in its decision of April 17, 1952 (unlike the decision in the District Court of Appeals) says it does not give the United Nations Charter controlling legal effect. However, it is quite obvious that as in the *Lippold* case (decided by the same court several years ago), the majority opinion in the *Fujii* case is largely influenced by what the court calls the "moral commitment" of the Charter. Thus, though in a technical legal sense the California Supreme Court now holds the Charter is not a self-executing treaty, the Charter is allowed to produce the same effect by projecting itself into the thinking of the court so that the majority judges adopt a new construction of the equal protection clause of the Fourteenth Amendment to the Constitution of the United States to the extent that earlier statutes and decisions upon the identical issue that have stood the test of time and experience are swept aside.

Judge Cites U.N. Charter

"The same judicial technique operated in the mixed marriage case (*Perer v. Lippold*) where Judge Carter, (also a member of the present court) after citing the general language of the Declaration of Independence and the Fifth and Fourteenth Amendments to the Constitution of the United States, then devoted a paragraph to

the Charter of the United Nations and thereupon concluded: 'In the face of these authoritative (meaning authoritative) pronouncements (including the Charter), the matter of racial equality should be a settled issue'.

"Now the same Supreme Court dealing with the California Alien Land Law, where the law has been settled for years upon the basis of both State and United States Supreme Court decisions "sees a new light" and with no other *new* beacon in the firmament to guide it to changing the settled law of many years except the United Nations Charter, the Court after discussing the Charter concludes with the following observations:

"The humane and enlightened objectives of the United Nations Charter are, of course, entitled to respectful consideration by the Courts and Legislatures of every member nation, since that document expresses the universal desire of thinking men for peace and for equality of rights and opportunities. The Charter represents a moral commitment of foremost importance and we must not permit the spirit of our pledge to be compromised or disparaged in either our domestic or foreign affairs'.

"Who is the 'we?' – obviously the Court whose new interpretation of the equal protection clause is directly influenced by the so-called moral *pledge* in the United Nations Charter. How is the pledge to operate? It is to operate in our *domestic* as well as in our foreign affairs and the courts are to be so guided in their consideration of the law as to see to it that the United Nations pledge is executed. What more could be necessary for all practical purposes to make the Charter a self-executing instrument ?

"The judicial legerdemain in the *Fujii* case makes it clearer than ever that the only way to protect the rights of the American people in their domestic affairs is to adopt a Constitutional Amendment which will prevent any treaty from being given *any* judicial consideration or effect unless it has been implemented by act of Congress which in turn is enacted within the delegated powers of the Congress.

"It is interesting to note that Judge Carter concurring in the *Fujii* case, after vehemently denying the charge of Judge Schauer made in his dissenting opinion, that the majority decision is based upon the 'strong social views' of the Judges instead of the law, then proceeds to prove the charge by resting his judicial conclusion upon citations from the miscellaneous literature of modern "social-minded" writers who are of the opinion that the Japanese race is composed of an honorable, hard-working and persevering people. This, of course, has nothing to do with the question of whether an alien, Japanese or otherwise, should own land if the sovereign people of the State of California, wishing to control their own *internal* affairs through their own legislative process choose to decide otherwise.

"When the latest *Fujii* decision is reviewed from every angle and the 60 pages of the majority opinions read and reread, one cannot escape the conclusion that United Nations concepts and the concepts of social writers belonging to the new

school of internationalists have achieved the overthrow of the established law of a great state as the people of that state had determined it for themselves. No wonder Judge Schauer said:

"This case is remarkable and regrettable in judicial annals for this reason: A majority of the justices of this court join in an opinion which recognizes the law as it is but refuses to follow it. There is no question as to what the law is. It was enacted in the year 1920 by the people of California through the initiative (Deering's Gen. Laws, Act 261) it is based, as to the classification established, on an act of the Congress of the United States; for the past thirty-two years this law, as will appear more fully in the case hereinafter cited and discussed, has been consistently upheld by this court and by the Supreme Court of the United States as against the precise attack now made on it'.

"Suffice it to say that under our form of government it is not the function of the Courts to change the law because of so-called new social concepts advocated by miscellaneous social writers. Let these writers direct their arguments to the people and the Legislature. It is the function of the legislative branch of government and it alone to change the statutory law of a state if and when convinced that new social concepts justify the change. Under the decided cases both State and Federal, not only the precise point but the precise statute as Judge Schauer states was settled law in California. The majority opinion is clearly based on the mere conjecture influenced by the United Nations and miscellaneous social writers that the Supreme Court of the United States looking at the so-called new social concepts will also reverse its previous decision upholding the constitutionality of the very same 'alien land' statute.

UN Documents Abridge Freedoms of America

"If the so-called 'moral commitments' and/or 'pledges'; in a Charter which is claimed to be 'non-self-executing' can work this change in the established law – what about the socialistic if not communistic 'moral commitment' and 'pledge' in Mrs. Roosevelt's Declaration on Human Rights? Are the so-called 'moral commitments' and 'pledges' in the present Covenant on Human rights abridging our American concept of freedom of speech and of press and of religion, and even of 'due process' including our right to trial by jury? The majority decision in the *Fujii* case has opened up a Pandora's box of so-called social commitments and international pledges. No wonder Judge Schauer said:

"This case is remarkable and regrettable in Judicial annals.'

"The *Fujii* case in California conferring the right on a Japanese alien to own land opens a Pandora's box of possibilities. It leaves Russia or Communist China free to furnish their nationals with funds to buy strategic property up and down our Pacific Coast wherever they can find a willing seller. The *Fujii* decision means that our right to self-government, both state and national, and our right to determine for

ourselves what kind of laws we want to make and live under, can be nullified whenever the President and two-thirds of the members of the Senate present at the time approve a treaty on a particular subject.

Warsaw Convention

"As another instance of a treaty changing domestic law, we have the Warsaw Convention relating to international air transportation approved by the Senate some years ago when we were on friendly terms with Russia. It now transpires that this treaty deprives American citizens of their full and proper right to trial by jury. In the fine print provisions of the Warsaw Convention, there is a provision limiting the tort liability of air carriers for personal injuries or death of passengers in aircraft disasters to the sum of 125,000 francs. The franc, of course, fluctuates from time to time, so the right of an American citizen thus fluctuates from time to time, but in no event does an American citizen or the widow and family of such citizen recover more than 125,000 francs, which at the present time is equivalent of about \$8,300 in American money, a ridiculously low sum as the maximum of recovery in a death case due to negligence.

"This Warsaw Convention, being a treaty, has been held to be the supreme law of the land and to override state laws and policies. *Garcia v. Pan American Airways* (1945), 55 N.Y.S. (2d) 317, affirmed 295 N.Y. 852, 67 N.E. (2d) 257; *Lee v. Pan American Airways* (1949), 89 N.Y.S. (2d) 888, 300 N.Y. 761, 89 N.E. (2d) 258, certiorari denied 339 U.S. 920.

Basic Rights Threatened

"More serious than that of land ownership or mixed marriages or even jury trial – look at the situation we now face with respect to our right to freedom of speech and freedom of press. Our wise fore-fathers knew that the mind and spirit of man could not be controlled and regimented by government or by the officers of government so long as freedom of speech and of press were preserved. Thus, the first provision of our Bill of Rights provided that, 'Congress shall make no law abridging freedom of speech or of the press....'

"But under Article 2 of the proposed United Nations Covenant on Human Rights it is provided that "in case of a state of emergency officially proclaimed by the authorities, a state may take measures derogating from its obligations" to preserve freedom of speech and of press. In other words, the whole right to freedom of speech and of press may be suspended when a state of emergency is officially declared by the authorities in power. Well, we have lived in a state of officially declared emergencies frequently during the last twenty years, and are still doing so. We had all our banks closed by a decree of one President. In the same way, if this Covenant on Human Rights is ratified by our Senate, a President, by declaring a "state of emergency" as provided in the Covenant, could close all the

newspapers in the United States, or such of those and in such places as he may think it wise to close.

Internationalists Seek to Socialize Government

"Look at the scheme the 'internationalists' in the United Nations have for completely socializing our government and our economy without the Congress or our State Legislatures having anything to say about the matter. How *do* the internationalists propose to do this? The program is 'spelled out' in the Declaration on Human Rights which, under United Nations propaganda, has been celebrated throughout the land as a great charter of human liberty. Article 22 of the Declaration provides that everyone has the 'right to social security'; Article 23 – that everyone has the right to 'just and favorable conditions of work and to protection against unemployment' and that everyone has the right to 'just and favorable remuneration'. Article 24 provides that everyone has the 'right to rest and leisure' and periodic holidays with pay". Article 25 provides that everyone has 'the right to food, clothing, housing and medical care and necessary social services and the right to security in the event of unemployment, sickness, disability, widowhood, old age' without any provision that he shall work for it or help establish a fund to pay for it. Put these, or similar pronouncements in treaty form, ratified only by the Senate, and you have by a few pages of treaty language transformed the government of the United States from a Republic into a socialistic state.

The Unlimited Power of UN Economic and Social Council

"There are many other proposals in the making affecting American rights and the internal rights of other nations. Under the loose language of the Charter the Economic and Social Council can propose practically any kind of a convention on any subject, social or economic. As a matter of fact, one of the great jokers in the Charter is the unlimited scope and power of the Economic and Social Council. It is made up of a Board of 18, elected by the Assembly, each for a three-year period. Its Council may sit continuously and think up new ideas and proposals. It is in effect an international commission sitting more or less continuously and almost without limitation as to what it can investigate and recommend as to anything in the world and as to any nation anywhere touching any economic, social, humanitarian, educational, cultural or health matter. Its powers rest on the grandiose theory that peace may be achieved if somehow economic, social, humanitarian, educational, cultural and health conditions are put on equality throughout the world. Then no nation anywhere will have anything to struggle about and every nation and every race will supposedly become so-called freedom-loving countries. The fallacy in all this is that World Wars and other wars did not primarily start because of inequality in the foregoing matters. Germany's health and education and her economic and social status were almost the highest in the world at the time of the First World War and there was no economic distress or

unemployment in Germany at the time of the Second World War. History shows that it has been the advanced nations for the most part and not the so-called backward nations that have been the disturbers of world peace.

"Some will say (if they read the Charter) that there is a provision in it intended to prevent the agencies of the United Nations from interfering with the domestic affairs of nations. It was thought that there was such a provision. It reads as follows (Chapter 1, Article 2, paragraph 7):

"Nothing contained in the present Charter shall authorize the United Nations to intervene in matters which are essentially within the domestic jurisdiction of any state or shall require the Members to submit such matters to settlement under the present Charter . . .'

The Result of Hastily Approving the UN Charter

"How does it come about then in view of this provision that domestic law can be changed and nullified by any agency of the United Nations? Certainly the Charter would never have been approved by the American people and ratified by the U. S. Senate if some such protective provision had not been inserted in the Charter. But this is an outstanding illustration of what happens when any document, public or private, is hurriedly approved and without careful study of how the language may be interpreted afterwards. The American representatives at San Francisco could not have read and considered this intended protective provision in the light of the American Constitution which makes all treaties the Supreme Law of the Land when merely ratified by the Senate.

UN Charter and Treaties Supersede State and Federal Laws

"It should be pointed out that in most other important countries except the United States, even after the ratification of a treaty, each country may decide when and to what extent it is ready to implement a treaty by the passage of national legislation even though such signatory state has agreed generally to enact such legislation. We are the only important country that faces the peculiar legal situation (except possibly France) that when a treaty is ratified by our constitutional process, to-wit: by our Senate, its provisions become a part of the Supreme Law of the Land. Article VI of the Constitution as we have seen, unequivocally provides that a treaty when ratified becomes 'the Supreme Law of the Land'...'any Thing in the Constitution or Laws of any State to the Contrary notwithstanding.' Hence, when an international agreement like the United Nations Charter or the Genocide Convention or the Covenant on Human Rights is ratified as a treaty, it supersedes every city ordinance, every county ordinance, every state law and every state constitution and every federal statute on the same subject throughout every state of the Union.

A Serious Threat to American Liberty

"In other words, due to the lack of attention paid to the matter at the time and because of the inadequate protective language of Paragraph 7, America now finds itself caught in a noose which only a constitutional amendment can remove. The use of the treaty-making power to enact new local laws or nullify existing local law and to change the relationship between the States and the Federal Government and to change even our Constitution and our form of government, constitutes a most serious threat to our American rights and liberties. It is not an over-statement to say that the Republic is threatened to its very foundation.

"Lawyers and legislators and the people generally are not familiar with the disturbing implications of this treaty supremacy doctrine as applied to present international purposes and procedures. Under modern international practice we no longer have expert negotiators appointed for the specific negotiation of a particular treaty. For the first time in our history, we have treaties drawn in the most loose and general language, and worldwide as to parties and as to matters involved. One might properly refer to them as 'blank check' treaties, for they are not only couched in general, loose, vague and undefined terms, but they so cover the whole gamut of so-called 'Human Rights' and human relations as to make it impossible to ascertain the limits to which their language may commit the United States to a program of revolutionary change in our whole concept and theory of government.

"Therefore, when the sponsors of this 'blank check' treaty school of internationalists purport to assure the American people that there is no danger in such treaties because they are only intended as declarations of ideals and aspirations, until implemented by domestic legislation, they offer assurances which are totally at variance with our actual constitutional situation, for by virtue of the language of Article VI of the United States Constitution as liberally interpreted by the courts there is little or no distinction left or to be made as to how far a treaty may directly affect domestic law and effect a change in our form of government.

Internationalists Seek to Placate Congress

"Recently in a letter to the *New York Times* a Harvard professor undertook to reassure the American people that a provision had now been introduced into the proposed Covenant on Human Rights which would remove any and all danger to American rights, even though the Covenant was ratified as a treaty.

"This is another instance like that of Article 2, subparagraph 7, of the Charter, already discussed, where by loose and general language the internationalists undertake to beguile the American people into a feeling of security. The trick provision introduced in the Covenant, Article 18, paragraph 2, to which the Harvard professor refers reads:

"Nothing in this Covenant may be interpreted as limiting or derogating from any of the rights and freedoms which may be *guaranteed* under the laws of any Contracting State.'

"This clause undertakes to preserve such greater rights as may already exist in any country, but many of our rights arise through a restraint on 'Congress' to deny or abridge basic rights and not as a restraint on the treaty-making power. Thus, many questions of conflict will arise as to whether our Bill of Rights protects us against 'treaty made law'. This is not an effective saving clause for many other reasons – one important one being disclosed in cases like the alien land law case and the mixed marriage case where it is a question of the right of the people of a particular state to legislate for themselves. Many of our freedoms in this country lie in a concept not covered by any such phrase as 'guaranteed under the laws of the Contracting State'. This clause clearly discloses how little attention the American representatives in the United Nations pay to basic American constitutional principles. Our rights to freedom of speech and of press and of religion and of assembly are not "guaranteed" by any laws of the United States. They are rights reserved to the people of the respective states. The Bill of Rights says that as such they shall not be abridged, but the Bill of Rights does not grant these rights; so that the so-called 'saving clause', that nothing in the Covenant shall be interpreted as limiting or derogating from the existing rights or freedoms which are guaranteed under the laws of a contracting state, to-wit: the United States, is ineffective language. It is doubtful whether any such saving clause, however phrased, would fit the American situation. Why should we run any risk of language in connection with these precious freedoms?

Conflicts Between U.S. Constitution and UN Treaties

"It is impossible to foresee all that the internationalists may accomplish by the "blank check" form of treaty. For example, our Federal Constitution provides that nobody shall be elected to the office of President or Vice President except a "Natural born" citizen of the United States. Already the Declaration on Human Rights (Article 21, Section 2) provides, "Everyone has the right to equal access to public service in his country." This would make Harry Bridges or any other naturalized citizen eligible to the office of President or Vice President. Again, our Constitution vests full power in Congress to control immigration, but by Article 14, Section 1, of the Declaration on Human Rights 'Everyone has the right to seek and to enjoy in other countries asylum from persecution.' With this incorporated in a treaty the right of asylum would be to all nationals of all nations of the world, and what right then would a mere Congress have, by immigration laws or otherwise, to prevent such persons from entering the United States. This could mean that in times of revolution in Cuba or Mexico or India or elsewhere, thousands might seek asylum here.

America Is Being Led by the Pied Pipers of Internationalism

"Without going into the matter in further detail, it is easy to see that this new procedure of 'blank check' treaty-making, whereby a treaty covers all the people in the world and their manifold, social, economic and governmental rights and relationships, may easily result in treaty law superseding and destroying large segments of domestic law and even changing many fundamental features of our form of government. The people of this country should begin to realize that they are being led by the Pied Pipers of Internationalism into a complete change in their form of government under such noble phrases as 'racial equality', 'social justice' and 'world peace'.

America Faces a Great Constitutional Crisis

"It is no mere rhetorical statement to say that America faces a great Constitutional crisis – one that threatens the very foundations of the Republic. Lawyers and laymen and the press are gradually rallying in support of a Constitutional amendment. The effect of trying to incorporate in an international document the rights and freedoms which American citizens enjoy, whether under state or national constitutions, and to make them international rights and matters of international interpretation, and to give foreign governments as well as individuals and pressure groups in foreign countries the right and opportunity to challenge our own interpretation of our own rights and even to challenge our right to the protection of our own courts, constitutes, in my opinion, not only a threat to American rights but an actual and present threat to the independence of the United States. The internationalists and humanitarians have certainly discovered a loophole in our Constitution. As Henry St. George Tucker, a former President of the American Bar Association, has well stated, the present treaty clause is a Trojan horse which is about to unload its hidden soldiery in our midst. As a Peace and Law Committee of the American Bar Association puts it, we need a Constitutional amendment that will 'drive the beast outside the walls without much damage done, and with its remaining armored soldiery securely locked within.'

UN Charter is a Threat to American Government

"Thus far I have been discussing certain aspects of the United Nations which constitute a threat to American individual rights and to our American form of government. This threat to a large extent results from the loose and inadequate language of the Charter and because its provisions and language were not studied and considered in the light of our Constitution and Bill of Rights. Until the Korean War and other disturbing international developments, I continued to share the belief of many Americans that the threat to our own rights and liberties might be safeguarded by an appropriate constitutional amendment and that with the functioning of the United Nations agencies limited to international matters, we might hope that as a cooperative security organization the United Nations could

grow in strength and influence and actually function toward the maintenance of world peace.

State Department Seeks to Deceive American People

"The State Department says we are not at war in Korea. What a ridiculous and tragic pretense! The boys in the front line trenches and the mothers and fathers at home and the taxpayers know full well that it is war and one of the toughest wars in which America has ever been engaged. We have to endure the pretense that it is not war because the United Nations wants it treated as a police action to resist aggression and wants to by-pass the United States Constitution which vests in our Congress the sole power to declare war. As a result, the undeclared war is conducted by diplomats and what a mockery they are making of it. Even our generals get captured because they are supposed to walk into prison camps almost unattended and talk nicely to the Communists. We then have to ransom our general by assuring the Communists we will never again attempt to screen the prisoners and give any of them who prefer not to return to Communist areas a chance to express such a preference. Was anything sillier ever known in the whole history of the world!!

A No Win War

"In order not to offend Russia, England or Communist China or interfere with their interests and programs in the Orient, America is not allowed to win the war though we moved in and the UN ratified our action and we were put into it by United Nations action. Because of the conflicting interests and policies of other nations, America is not allowed to prosecute the war to a successful conclusion. Until this new kind of "phony war" was conceived, everyone supposed that the chief objective of any war was to achieve victory. The chief objective of this United Nations war is to produce a stalemate and prolong the war instead of achieving victory. Thus, the United Nations in prolonging the war which might otherwise be concluded acts as a menace to peace. General Omar Bradley, in a news release of Tuesday, October 2, 1951, when he was with the Third Division of the United States in Korea, stated that the United Nations could bring the Korean War to a successful military conclusion if the truce talks were to be then broken off completely. This statement by General Bradley is a clear indication that the war has not been brought to a successful military conclusion because it is being conducted by the State Department instead of by the military. What General MacArthur advised and wanted to do – was to bring the war to a military conclusion before the 'phony' truce negotiations were ever started.

A No Win War

"Another war somewhat less discussed in the press has been going on in Indo-China. Only a few weeks ago the figures released indicated that there had been almost as many casualties there on the part of France as America has suffered in

Korea. The United Nations has been wholly impotent to take any steps to end this conflict and so it drags on there – and on and on – with great loss of life and destruction of property.

"With respect to the Egyptian situation – do you think that Egypt would be twisting the British lion's tail if it did not know that England would not move in force against it because United Nations might then brand England as an aggressor? But Egypt is actually the aggressor for it repudiated its treaties and resorted to armed force to deprive England of her treaty rights. Egypt knows that England cannot get the Security Council to act because Russia would veto any such proposal. Hence, the hostilities and actual war and killing in Egypt is stimulated and has to go on because Egypt knows the United Nations can take no effective action to stop it because of the Russian veto.

"Likewise, Iran repudiated its treaty obligations just as definitely as the Kaiser at the beginning of the First World War repudiated Germany's treaty obligations. Now some here may say that the treaties between England and Iran and between England and Egypt were exacted from those countries by undue pressure on the part of England as a large power. Since the beginning of the world, there has been a well-known technique on the part of individuals and nations to repudiate contractual obligations that with the passage of time they did not like on the theory of after thought, undue influence and pressure. There has been no finding, however, that England exercised undue pressure in connection with these treaties. Certainly she did not with respect to the Suez Canal. Egypt very much wanted this Canal constructed and so did all the other nations of the world. Why doesn't the United Nations pass on this matter ? – Simply because Egypt says it's a matter between her and England. Why doesn't the United Nations function as an agency to determine the question of whether the Egyptian treaties or the Iran treaty are oppressive.? – For the very good reason that neither Egypt nor Iran will agree. England tried to have the Iranian dispute settled by the World Court but Iran balked. Thus, in these disputes the United Nations and its agencies have proved impotent even as to small powers and the disturbances and hostilities go on.

UN Successes Are a Deception

"It is claimed that the United Nations has certain achievements to its credit, for example, the establishment of peace in Palestine. There is no peace in Palestine. I recently talked with a U. S. Senator who is a good Democrat and who has just returned from Palestine. He says there is only an armed truce there – that the Arabs are being held back by barbed wire fences, that these Arabs feel that much of their home land, farms and houses have been taken over unjustly to make room for displaced Jews from middle Europe. All the seeds have been laid there for a war of revenge when the Arab world feels strong enough to move against Israeli and America again will have to bear the burden of this United Nations sponsorship of a new nation unable to defend itself. The United Nations by the partition of Palestine

has not only alienated millions of Arabs but millions of Mohammedans formerly well disposed toward the United States.

UN Established a Dictatorship

"Within the last six months we have become a party under United Nations sponsorship to setting up the new state or nation of Libya in North Africa. King Idriss I has been proclaimed as the monarch of this poverty stricken Arab land of 1,340,000 inhabitants but there is no joy among a majority of the Arabs. There was no enthusiasm whatever in Tripoli, the largest city. I quote from a news dispatch of December 24, 1951: 'In Tripoli a broadcast of the King's independence proclamation was received with sullen apathy.' Tripolitanian leaders claim that their freedom of speech was interfered with because the anti-Western leader of their National Congress Party is prohibited from making speeches. He is prohibited, of course, because the United States and the other sponsor western nations do not want any expression of anti-Western feeling. The United States has air bases there, Britain is maintaining an infantry brigade and France has three air bases. Don't you suppose the Arabs know that the reason for the creation of this new state and the selection of a King favorable to the Atlantic Pact countries is merely a part of the power politics in the "cold war" with Russia. Libya and its government will, of course, have to be financed and supported by the United Nations which will turn the job over to the United States. In due course the government of Libya will have to be defended against disorders from within and threats from without.

"On the other side of the scoreboard there is the seizure of the whole of Tibet by Chinese Communists. Tibet was seized after Korea although the United Nations boasts that the action in Korea taught the world that aggression does not pay. Also, since Korea, the Chinese Communists have taken a more active part in giving aid to the Communists in Malaya and in Indo-China. Do you suppose that the Chinese Communists agree with the State Department that aggression does not pay, or that they have any fear that the United Nations will effectively attempt to punish the aggression of which they and Russia have been guilty?

A Debating Society

"The basic difficulty in the structure of the United Nations so far as war and peace is concerned is the fact that the Assembly is only a debating society and that because of the veto the Security Council has remained impotent. Thus, a little country like North Korea backed by great countries like Russia and the Chinese Communists dares to start a war with impunity because it knows that great countries like Russia and Communist China will not be disciplined by the United Nations. A little country like Egypt dares to thumb its nose at a great country like England and tear up treaties because it knows it will not be disciplined by the United Nations unless all the great countries agree and it knows at least one,

Russia, will not agree. Not only must the United States get permission and have the approval of the United Nations in the matter of conducting a war and in negotiating a peace or a truce, but we must have United Nations permission for almost any action we take in international affairs. If we want to send an ambassador to Spain we have to have United Nations permission. If Hungary imprisons our aviators we cannot threaten any action of force, we merely have to pay the ransom. If our newspaper men are imprisoned as in Czechoslovakia we cannot even put a ban on our trade with Czechoslovakia (economic sanctions) without United Nations permission. The end result is that there is little hope that the United Nations will prove to be an instrumentality effective in reducing armed conflict or in maintaining world peace. Consequently, while still giving lip service to the United Nations we have long since recognized its failure as a safeguard against aggression and have embarked upon a 'build up' of regional alliances greater and more far-reaching than America has ever before contemplated.

"As the Hon. Joseph P. Kennedy recently stated: 'It (the United Nations) can neither decide, or, if by an accident such as happened with Korea, it does decide, it cannot enforce what it has decided. It has demonstrated that it cannot make war or conclude a peace. Korea, for example, has always been our war. The aid of the United Nations to our forces is negligible. In money expended, in men in action, in casualties, that aid represents less than ten percent of our own effort. While the aid that is being furnished our enemies, through Hongkong, over the Indian border or across The Iron Curtain perhaps indirectly cancels that less than ten percent of direct aid....'

The Ineffectiveness of the UN

"Realizing the ineffectiveness of the United Nations as an agency to preserve the peace, we have reached out under the guise of collective security to build regional aggregates of nations: In the Atlantic, the North Atlantic Treaty Organization; in the Pacific, we have guaranteed the integrity of Australia and New Zealand; in the Middle East, we have proposed the imposition of a Middle East Command on the nations of that explosive area. This is all a confession of lack of faith in the United Nations.

Americans Deceived in San Francisco

"War is terrible. It did seem in 1945 at San Francisco that at long last and in view of the horrible discoveries of modern war including the atomic bomb capable of destroying civilization itself, human beings would be willing to subordinate every other motive and all rivalries, economic, racial and national, to the definite end and single purpose of forever outlawing war. But the stubborn facts already referred to the divergences inherent in the individual, racial and national interests, and ambitions of the peoples of the world have again prevented the attainment of peace – at this particular time the principle divergences operating to defer the

peace are, of course, those existing between the Russian and non-Russian blocks of nations.

Americans Should Not Be Fooled

"Americans in their great desire for peace should not be fooled into sacrificing either their individual freedoms or their integrity as a nation, for we can easily lose our rights and freedoms in the entanglement of international commitments and agreements if we permit our basic rights under the Constitution and our own Bill of Rights to be rewritten, leveled out, compromised and confused by nebulous and ambiguous United Nations 'treaties'. We can also lose our independence and integrity as a nation – financially, politically and militarily – through loose and general international commitments bypassing the Constitutional provision giving Congress the sole power "to declare war which power now seems to have been taken over by the President acting by and through the Security Council of the United Nations. . . To gear our foreign policy to the United Nations results not only in overruling the Constitution but in dissipating our voice and our energies. America had a clearer voice and a greater prestige both at home and abroad when she spoke directly to the world as an independent constitutional Republic. Now the effectiveness of her voice is dissipated and lost in the confusing and vacillating debates and the squabbling and name calling in the United Nations. It may well be when this great problem of peace is looked at from all sides that for this century at least, a strong independent and free America is not only the best for its own citizens but the best guarantee of world peace and world order.

State Department is Promoting Global Socialism

"Such a policy is not isolationism. Certainly we have an interest and a stake in the well being of the rest of the world but America will perform its role in world affairs better if instead of being a Santa Claus to all nations it first of all protects the rights and liberties of its own citizens and conserves its own economy and its own strength and encourages other nations to stand on their own feet. We can and should give intelligent aid and advice and a measure of financial help, but our State Department is now embarked on a worldwide P.W.A. and what is even more serious, our delegation in the United Nations has been naively supporting a program of levelling down and giving away our precious American rights and liberties. To halt these stupidities is not isolationism. Whatever we do in world affairs – our first consideration should be the preservation of this country's integrity as a free, solvent and independent nation and the preservation of the rights and liberties of its citizens as free men and free women – and so I say again that a strong independent and free America is not only best for its own citizens but the best guarantee of world peace and world order. (*Vital Speeches of the Year*, Vol. 18, pp. 678-684.)

The U.S. Should Not Compromise Its Constitutional Guarantees

On February 22, 1955 William F. Knowland, U.S. Senator from California, spoke before the Sons of the Revolution in New York City. In a speech entitled, "The United Nations – Impotent and Paralyzed: We Must Not Compromise Our Constitutional Guarantees," he said:

"MR. CHAIRMAN, distinguished guests, and members of the Sons of the Revolution of the State of New York, I am greatly honored to be called upon to respond to the toast to General George Washington.

"As the leader of the Army of the Revolution he was first in war and his courage and ability played a major part in the winning of our independence.

"After this great service to the new Nation, he felt he was entitled to retire, but we consider him first in peace because he presided over the Constitutional Convention which gave us the basic framework of our Government and then later became the first President under the Constitution.

"In the period of our national life since then, he has been truly first in the hearts of his countrymen.

"While we are here to pay tribute to George Washington and the service he rendered to our Nation, it is also fitting and proper that we review some of the current problems and the effect they may have upon the institutions he did so much to help create and to preserve.

"The world balance of power has been so upset that no prudent person can ignore the realities of the situation. Not only the future of this Republic but the hope for a free world of free men largely depends upon the policies that we follow and the firmness with which we and the free nations deal with future communist aggression or threat of aggression.

The Growth of International Communism

"In the past 10-year period international communism has increased its power, its area, and its population. Ten years ago at this time there were less than 200 million people behind the Communist Iron Curtain. Today over 800 million people live under the most ruthless, godless tyranny the world has ever known.

"Recognizing the inherent danger in further Communist conquest, the Government of the United States has undertaken a series of commitments under the North Atlantic Alliance, the ANZUS (Australia-New Zealand-United States) Mutual Defense Pact and mutual defense pacts with the Republic of the Philippines, the Republic of Korea, Japan, southeast Asia, and the Republic of China.

"The last two treaties were overwhelmingly ratified by the Senate this month.

"In a display of national unity that should have encouraged our friends abroad, given courage to the neutrals and opened the eyes of the would-be aggressor, the House of Representatives passed the resolution by a vote of 409 to 3 and the Senate by a vote of 85 to 3.

"This action had no sooner been taken and the two treaties ratified than diplomatic moves started on the part of certain Asian and European powers to bend the line of defense in the Pacific and lay the ground-work for a conference which would have all the unfortunate results of a Munich, a Yalta or a Geneva wherein the aggressor gains his objectives at the conference table.

Internationalists Promote a World State

"Unfortunately, the history of these conferences has been that it is always the free world that gives up territory and surrenders human beings to the control of the Communists. It is never the other way around, wherein the enslaved people gain their freedom. We must not permit Gulliver to be tied down by the Lilliputians. There are those, at home and abroad, who seek to advance, the cause of world government. Until now it has not been a major threat to our Constitution or our sovereignty. The development of the atomic and hydrogen weapon has caused some persons at home and abroad to believe that world peace and security depend upon some form of world state. This is a fallacy that could cost us our freedom.

U.S. Should Not Join a World State

"This country cannot join its political system with the other nations of the world, including Communist or other dictatorships, without diluting our constitutional guaranties. How can a Communist dictatorship, or any other kind, have an equal voice with this free Nation without compromising our constitutional structure of government and the rights of free men? How can a Socialist or Communist economic system be tied to ours without first comprising and then destroying the free economic system, the rights of private capital, and the unregimented life of our people? How can we join our productive capacity and resources to the unproductive who lack resources without destroying the living standards of our people whose enterprise and thrift helped them accumulate property and capital for new industry? This has been the great incentive that has advanced us from a small colony of 3 million to a great Nation of 165 million people, the most productive the world has ever known.

"It is one thing for the American people by deliberate choice, after thorough debate, to amend our Constitution to meet changing conditions. To allow it to happen by default would be a betrayal of our responsibilities.

Elite Seek to Undermine U.S. Constitution through Executive Agreements

"We must not permit court decisions or Executive agreements to raise such to the status of treaties. Nor will we long preserve our Constitution, drafted at Philadelphia under the chairmanship of George Washington, if we fail to challenge any effort to amend our Constitution by use of a loophole which may provide a treaty or Executive agreement short-cut to what was intended to be a difficult process.

"Let us examine the record of the United Nations as an agency for effective collective security as envisioned by some or as a basis for a world government as contemplated by others.

"World War II had not yet terminated in 1945 when the United Nations Conference was held in San Francisco. The people of the world did not know that we were on the threshold of the atomic age though those high in Government had reason to believe a vast new power that ultimately could be used for destructive or constructive purposes was soon to be unveiled.

"Hopes were high everywhere that the Soviet Union, though dictatorship, had learned the folly of aggression and of war and because of the vast help given by the free world to them would be willing to help establish a system of international law and order to preserve the peace of the world for ourselves and our children.

A Massive Propaganda War

"Unfortunately both during the San Francisco conference and in the 10 years that have followed a vast propaganda effort has taken place to build the United Nations into something which its charter provisions could not or did not permit it to become. In the United Nations different people envisioned different things.

"Some envisioned it as a mighty force of collective security that would rally most of the nations of the world to resist aggression and preserve the peace. In moments of oratorical fancy some even suggested that the fact the United Nations was in being would warrant free nations to scrap most, if not all, of their armed forces and place their reliance upon the 'police power' of the United Nations and the collective moral persuasion of that organization. On June 25, 1950, this concept was shattered shortly after it appeared to be confirmed.

The UN Is Impotent Against Communism

"When the Communist forces crossed the 38th parallel, the United Nations Security Council promptly acted and first called upon the Communist aggressor to cease the aggression. The Communists, of course, forthwith showed they were not impressed by a United Nations resolution or the adverse moral reaction of that organization. The Security Council next called on the 60 members of that

organization to give aid and support to the victim of the aggression, the Republic of Korea.

"What is the record on this? After 3 years of the Korean war, of the 60 members of the United Nations only 17 contributed a single soldier, sailor, or airman to the resistance of aggression. Outside of the United States of America, the other 16 contributed armed forces in the amount of 45,000. The United States of America alone contributed more than 450,000 and we rotated more than 1 million men through the Korean theater of war. The little Republic of Korea, which was the victim of the aggression, supplied over 600,000.

"This means that of the United Nations members the United States of America supplied more than 90 percent of the manpower and better than 90 percent of the resources. When the forces of the Republic of Korea, not being a member of the United Nations (having been kept out by a Soviet veto), are added to those of the United States, it means that our two nations alone supplied better than 95 percent of the manpower.

"Does this indicate that the United Nations is an effective instrument of collective security? The answer must come back in the negative.

"Our associates in the United Nations so tied us down that a stalemate was all that could be gained after 3 years of struggle in Korea.

"We were denied the right of hot pursuit and the enemy was protected in his sanctuary across the Yalu.

"With that example are you prepared to risk the future of our Nation and the safety of our people upon the collective ability of the United Nations to function in the event of aggression? The answer likewise must be in the negative.

It Is Time for a Realistic Reassessment of the UN

"Has the time not come for a realistic appraisal of just what part the United Nations is qualified to play and to stop kidding ourselves into believing it is something it is not and, in my judgment, cannot be.

"There are some who have envisioned the United Nations as a world state to which openly or clandestinely, individual nations would surrender their sovereignty. Some of the more enthusiastic proponents of this type of super state compared the San Francisco meeting with that of our own Constitutional Convention at Philadelphia. Of course, the two gatherings are not comparable when one considers the building of a government upon which man might depend for the protection of his life and his religious, economic, and intellectual freedom.

The Lessons from Philadelphia

"In the first place those who met at Philadelphia spoke a common language and had a common heritage. True, they had come from different areas of the world, but they or their predecessors had come seeking a new way of life, freedom from Old World tyranny or a desire to worship God according to the dictates of their own consciences.

"They had fought a common battle against the mightiest empire of that time. They had carried over from the old country the background of the Magna Carta and of representative government. They had experience as an independent nation, much of it unsatisfactory, under the Articles of Confederation.

Divine Inspiration Given to Founding Fathers

"With that background, under what I believe was divine inspiration. They drafted the greatest document produced by the mind and hand of man for his self-Government and protection of his natural rights.

The UN is Not a Correct Basis for World Government

"A little more realistic understanding of the history of the nations gathered in San Francisco should have made it clear that such an organization could not be and should not be considered a basis for world government.

"There is no common language or common heritage. Nations which have had no experience with representative constitutional government sit on equal terms with those that have had long experience. Nations of less than 1 million have equal representation with those of over 300 million. The Soviet Union, which is perhaps the most tyrannical government since western civilization entered the modern era, sits as an equal partner with nations with long-established constitutions of law, order, and a respect of the rights of man.

"Now, there are those who urge the admission of Communist China which was the aggressor in the Korean war. This, together with the other Communist states, would give that system of tyranny over 800 million people that they claim to speak for.

"As for me, as long as I have a voice or a vote in the Senate of the United States, I shall never consent to permitting the guaranties of freedom under our Constitution being diluted or modified directly or indirectly by any organization having in powerful policy positions nations which have no appreciation of or respect for free institutions.

"Lest we be gradually edged into such a world state before we learn too late wherein we have been taken, I believe that every candidate for public office –

executive, legislative or judicial – should be asked to give a forthright view upon this great public issue. It is later than you think....

Korean War

"Following the intervention of Communist China into the Korean war the United Nations, after great hesitation, declared Communist China the aggressor. There had been no such hesitation when the small aggressor Communist Korea, crossed the 38th parallel in June of 1950.

"To the close observers this seemed to indicate that there would be alacrity to pass a resolution and to act against a small aggressor but there would be procrastination and delay in acting against a large aggressor. This seemed to be an abandonment of principle for expediency.

Soviet Union Assists Korean Communists

"Later, when the evidence was conclusive that the Soviet Union was not only giving moral support to Communist aggression in Korea but was supplying MIG planes, tanks, artillery, ammunition, and other weapons in clear violation of the United Nations resolution and the charter of the organization, no steps were taken to expel the Soviet Union from the United Nations.

"Later on, the official representative of the Soviet Union baldly and boldly admitted the fact that such support had been given and in effect defied the United Nations to do anything about it. They did nothing and by in-action underscored their futility when dealing with Soviet charter violations.

"Every member of the United Nations knows that the terms of the Korean armistice have been violated on numerous occasions. The neutral nations commission is not allowed to function in Communist North Korea as it was intended though they have complete freedom in the area of the free Republic of Korea. In violation of the terms of the armistice, the Communists have brought in equipment and built military airfields. No effective steps have been taken to require respect for the terms of the armistice.

"The most flagrant violations has been the admitted holding of 15 members of the American Air Force, 11 of whom have been sentenced to prison terms of from 4 to 10 years. Under the terms of the armistice it was required that all prisoners of war who wanted to be returned should be allowed to do so.

"There is strong reason to believe that there are at least several hundred additional United Nations and United States prisoners of war being held in violation of the terms of the armistice.

"The United Nations passed a resolution expressing its concern in this matter. The Secretary-General, Mr. Hammarskjold, made a special trip to Peking. He returned without the release of the prisoners and without any date upon which they might be expected to be returned in the future. It is, apparent that they are being held for the purposes of international blackmail on the part of the Chinese Communists.

The UN Is Impotent and Paralyzed

"Impotent and paralyzed, the United Nations Security Council and General Assembly have taken no effective steps to enforce the release of our airmen in accordance with terms of the Korean armistice. Again I ask: 'What effective steps, if any, does the United Nations intend to take?'

"In the matter of the Chinese Communist aggression against the Republic of China which is a charter member of the United Nations, that organization invited the Chinese Communists to come to New York to discuss a cease-fire.

"Arrogantly, the Chinese Communists laid down terms that a victor would be expected to lay down to the vanquished – namely that the Republic of China should be removed from the Security Council and that the Soviet Union resolution condemning the United States should be made the order of business rather than the New Zealand resolution relative to a cease-fire.

Another Victory for the Communists

"When this message was received the United Nations again demonstrated its ineffectiveness by postponing the whole situation, while some of the neutralist friends of the Soviet Union and Red China are trying, through diplomatic channels, to provide for a Far Eastern Munich whereby the Chinese Communists will be given the key coastal islands of Quemoy and Matsu and membership in the United Nations. This, of course, would be another defeat for the free world and throughout all of Asia looked upon as another victory for the Communists, comparable to that growing out of the Geneva Conference, wherein the Communists gained control of Northern Vietnam and 15 million more human beings.

"I am strongly opposed to the admission of Communist China into the United Nations.

"If, as part of a Far Eastern Munich, the appeasers force Red China in I shall devote the balance of my life to taking the United States out.

"These are not pleasant facts, and there are many in this country and elsewhere who, because of the vast amount of publicity and propaganda, have gotten a distorted view of the capabilities of the United Nations Organization....

"This Nation will live up to all of its treaty obligations, and we have the right to expect that our allies will do likewise.

"I have a deep conviction that the American people and those throughout the free world who understand the dangers facing us will never again pay the price of another Yalta or another Geneva in order to buy a temporary respite from the insatiable appetite of international Communists to destroy human freedom.

"If we as a free people will show the same courage and common sense that motivated Washington and the others who under divine inspiration gave us our Constitution there are none of our great domestic problems we cannot solve and there is no foreign foe we need fear." (William F. Knowland, *Vital Speeches of the Day*, pp. 1094-1096.)

The UN Promotes Socialism, Secularism and Internationalism

Everyday more and more people are questioning the validity of the UN in today's world. From the viewpoint of the elite, it is a useful tool to promote socialism, secularism and internationalism. And the American taxpayer continues to give the UN hundreds of millions of dollars each year to carry out its international agenda. Even though there is growing opposition to the UN, the financial elite are not about to abandon a creature which they designed to 'internationalize' the world.

Internationalists Seek to Reform the UN System

The elite are now in the process of reviving the international institution. Recently the proponents of the UN gathered in New York to devise ways to strengthen and modernize it. Their studies, conclusions and recommendations were published in an edited book by Peter Fromuth entitled, *A Successor Vision: The United Nations of Tomorrow*. It was published by the United Nations Association of the United States of America in New York City. According to the report, "The United Nations Association is making the U.N. work. Through policy research, public outreach, and international dialogue, UNA-USA is building a national and international constituency for global cooperation. A nonprofit, nonpartisan membership organization, UNA-USA participates actively in the public debate about America's role in the world, serving as a major source of information for congress, the executive branch, students, and the media. Step by step, UNA-USA is bringing the U.S., the U.N., and the global community closer together." (Peter J. Fromuth, editor, *A Successor Vision: The United Nations of Tomorrow*, Lanham, Maryland, University Press of America, 1988.)

The UN Management and Decision-Making Project

Successor Vision was "written for diplomats, scholars and all serious students of international relations." It "diagnoses the cause of the U.N.'s troubles and proposes

a radical plan for steering it back on course. The trenchant analysis and cool-headed proposal contained in the first half of the book are the product of an international panel that met during 1986 and 1987 under the auspices of the UNA-USA. Widely regarded as the most senior gathering to study the U.N. since the San Francisco Conference, the panel was also remarkable for its diversity, numbering among its members U.S. Senator Nancy Kassebaum, and Tanzanian Defense Minister Salim Salim, former Chancellor of the Federal Republic of Germany Helmut Schmidt and Foreign Minister of Uruguay Enrique Iglesias." (Back cover.)

A Report of the United Nations Association of the USA

According to the report, "The U.N. Management and Decision-Making Project was a two-year research program of the United Nations Association of the USA (UNA-USA), dedicated to strengthening the effectiveness of the United Nations and its immediate affiliated organs by offering constructive criticism regarding the management, governance, and role of the world organization. Financed by a grant from the Ford Foundation, the project reflected an effort to identify ways of making the United Nations work better in an era of increasing interdependence and of growing demands on the world body.

"The project consisted of two parts. Its centerpiece was a high-level, 23-member international panel that united individuals with senior political experience and those with outstanding managerial skills. This panel published a final report (Part One of this volume) in the summer of 1987 that set out a rationale, priorities, and feasible agenda for the United Nations for the remainder of the century and proposed the type of changes in structure, procedures, and management that are necessary to carry out such an agenda. A preliminary report entitled *U.N. Leadership: The Roles of the Secretary-General and the Member States* was released in early December 1986.

"Second, in addition to the meetings and reports of the Panel the project staff produced several research papers over the course of 1986 and 1987. These papers provided a background for the deliberations of the Panel and served as a source of information and analysis for the wider policy-making public in the United States and other countries." (*Ibid.*, *preface.*)

International Panel Members

"The International Panel of the U.N. Management and Decision-Making Project included:

Elliot L. Richardson (chairman)
Chairman, UNA-USA
Former Secretary of Commerce
Former Attorney General of the United States
Former Secretary of Defense

Former Secretary of Health, Education and Welfare

Andres Aguilar Mawdsley
Permanent Representative of Venezuela to the United Nations
Former Ambassador of Venezuela to the United States

Otto Borch
Danish Ambassador to NATO
Former Ambassador of Denmark to the United States
Former Permanent Representative of Denmark to the United Nations

Andrew F. Brimmer
President, grimmer & Company
Former Governor, Federal Reserve System

Enrique V. Iglesias
Minister of Foreign Affairs, Uruguay

Senator Nancy L. Kassebaum

Prince Sadruddin Aga Khan
Former U.N. High Commissioner for Refugees

T. T. B. Koh
Singapore Ambassador to the United States
Former Permanent Representative of Singapore to the United Nations

K. B. Lall
Chairman, Indian Council for Research on International Economic Relations
Former Indian Ambassador to the Economic Community, Brussels and
Luxembourg
Former Permanent Representative of India to UNCTAD and GATT

Jacques Leprette
Former Permanent Representative of France to the United Nations
Former French Ambassador to the EEC

Robert S. McNamara
Former President of the World Bank
Former Secretary of Defense

Frederic V. Malek
President, Marriott Hotels and Resorts
Former Deputy Director, Office of Management and Budget

Olusegun Obasanjo (Major-General)

Former President of Nigeria

Philip A. Odeen

Regional Managing Partner, Management Consulting Services

Coopers & Lybrand

Former Principal Deputy Assistant Secretary of Defense

Sadako Ogata

Professor, Sophia University (Tokyo)

Former Minister, Mission of Japan to the United Nations

Paul H. O'Neill

Chairman and CEO, ALCOA

Former Deputy Director, Office of Management and Budget

Olara A. Otunnu

Former Foreign Minister, Uganda

Former Permanent Representative of Uganda to the United Nations

Mohamed Sahnoun

Algerian Ambassador to the United State

Former Permanent Representative of Algeria to the United Nations

Former Algerian Ambassador to France and Germany

Salim A. Salim

Deputy Prime Minister and Minister of Defense and National Service, United Republic of Tanzania

Former Permanent Representative of Tanzania to the United Nations

Former President of the United Nations General Assembly

Helmut Schmidt

Former Chancellor. Federal Republic of Germany

Brian Urquhart

Scholar-in-Residence, The Ford Foundation

Former U.N. Under-Secretary-General for Special Political Affairs

Cyrus R. Vance

Senior Partner, Simpson, Thacher & Bartlett

Former U.S. Secretary of State

(Ibid., preface.)

Executive Survey of U.N. Reform Proposals

The International Panel prepared an Executive Summary of this recommendations. It stated:

"Crises in the lives of organizations often spark a rethinking of basic purposes, strategies and agendas. The purpose of this report is to help ensure that the current situation of the United Nations, which is one of deep crisis, leads to a sharper definition of goals, a more effective deployment of means, and a revitalized mandate.

"A paradoxical situation confronts the U.N. and other international organizations today. On one hand the gap between the legal and political sovereignty of nation states and their ability to give sovereignty concrete shape – whether in air quality, energy security, jobs, surety against nuclear warfare, etc. – has never been larger. Yet while this 'sovereignty gap' seems to cry out for international solutions, it has actually produced very little innovation to equip our existing international machinery to do the job. In parts of the international system some cautious modernizing is taking place. At the center of the system, however, there is deep skepticism about the present capacity of the United Nations to respond usefully to most global problems.

"Many factors lie behind this skepticism: frustration with the U.N.'s ineffectiveness in the security field; its frequent failure to contribute usefully to the management of many global problems outside the traditional security area; deficiencies in its management and in its public information programs; the junior level of many of the delegates who sit on its many main intergovernmental committees, especially those in the economic and social area, etc.

"In the face of such problems the prevailing skepticism is unsurprising, yet it does not reflect a balanced evaluation either of U.N. performance or of the nature of the factors which affect that performance. The U.N. has rendered many services of incalculable value to its members and to the world community: the fostering of decolonization; peacekeeping and peacemaking efforts; defense of human rights; assistance to refugees; the development and extension of international law; promotion of collective action on such common problems as environment, population, resource strain, et al.

U.N. Fails to Change to New World

"While this is an impressive record, many of the achievements mentioned belong to a time when the U.N. played a more central part in the cooperative management of world problems than it does today. Many diagnoses have been offered to explain this increasing marginalization: management handicaps embedded in the staff structure and institutional culture; lack of intellectual leadership; lack of political will; excessive politicization. The panel considered

each of these but found none of them completely satisfactory. Instead, it believes that the U.N.'s current situation derives from two more basic problems: the ambiguity of its specific world role and its failure to change that role as the world has changed.

The Role of the U.N.

"The panel believes that the role of the U.N. at the close of the 20th century is determined by two factors, each pulling in opposite directions: the causes and the effects of most major challenges facing governments are international, while the authority for dealing with those problems remains vested in nation states. This mix of opportunity and constraint dictates a responsibility to promote international cooperation by connecting an unsentimental assessment of national interests with an uncontestable vision of common goals.

A New Vision for the U.N.

"Yet the present system of international organizations, of which the U.N. is theoretically the center, is not organized to carry out this mission due to weaknesses in its structure and flaws in the assumptions that determine how it defines its work. To correct that situation, this report proposes a new vision for the United Nations:

- "1. the U.N. should identify common interests among its members;
- "2. it should convert those common interests into common views; and
- "3. it should strive to convert those common views into cooperative action.

"This formula already typifies the United Nations' most successful efforts, but for the generality of U.N. activities it remains the exception rather than the norm. A sharper definition of the functions of the U.N. in relation to the U.N. system, and a new structure, particularly in the economic and social area, are indispensable.

Global Watch

"In order to identify the issues on which convergence of interests exists, the U.N. needs: (i) a setting where emerging issues of urgent global significance can be spotlighted and their implications for national and international policy choices and human welfare given prominent international attention by a small senior body; (ii) a capacity at the staff level to monitor, and put into usable form, data on 'global watch issues,' to systematically examine implications for national and international security and welfare, and to identify overlapping interests and the margins for potential agreement.

Consensus-Building

"A more systematic approach to consensus-building at the United Nations is indispensable. It should incorporate the following elements: affected parties: Communities of interest are more easily formed and collective action taken when negotiations and decisions include only those countries most directly affected by the issues; equity-security: Links between economic equity and security (in the broadest sense of *human* security) are increasingly direct, and future consensus-building efforts, particularly as they relate to the crossover between economic, technological, and environmental concerns, must reflect that linkage; representational diplomacy: To assure speed of consultation, minimal procedural and parliamentary delay, and participation at senior levels, global watch discussions should not be conducted in universal membership bodies but in a forum which, while of limited size, would be composed of countries drawn from the entire membership of the U.N. according to a system of rotating representation.

Consensus Conversion: Stimulating Collective Action

"As the need for effective management of international issues grows more acute, a more direct U.N. role in defining and proposing specific mechanisms for cooperation – occasionally even in helping to set up the necessary logistical apparatus – will be necessary.

Strengthening Structure

"The panel has given considerable attention to the deficiencies of the present U.N. structure in the economic and social area, these include: a generally low level of representation; overlap between the General Assembly, the Economic and Social Council, and UNCTAD; a lack of intellectual authority; the absence of a system for identifying emerging global issues; and the weakness of coordination and joint planning in the U.N. system. While institutional changes are clearly needed, a balance has to be struck between what may be desirable ultimately, and the kinds of constructive practical steps which member states could undertake immediately. Consequently, the panel has made the following recommendations:

Ministerial Board

"To provide a high-level center for the conduct of global watch consultations described above, a small Ministerial Board of not more than 25 governments should be established in affiliation with ECOSOC. The Board would be composed of delegates with the seniority and expertise to consult effectively, issue communique and initiate or propose ad hoc actions with regard to matters on which there is agreement that enhanced international management is essential.

"Functions: GLOBAL WATCH – high-level consultations and exchange of views on any urgent international problems not within the jurisdiction of the Security Council; CONSENSUS-BUILDING – through ad hoc working groups of the most affected countries the Board will forge communities of interest on matters

before it; CONVERTING AGREEMENTS INTO ACTION – when appropriate the Board shall propose actions by or under the aegis of the U.N. proper (General Assembly would have to authorize), by other international agencies, by individual U. N. member countries.

"Agenda: The Board could address any issues of imminent or clearly foreseeable consequence for human security and welfare not within the jurisdiction of the Security Council, e.g., matters associated with natural disasters, the global biosphere, the special problems of the least developed countries, international debt, disease control, illegal capital flight, international narcotics trafficking, cross border population movements, urban overpopulation, etc.

"Composition and procedures: The 25 members would consist of a core of permanent members made up of the largest developing and developed countries, and a larger number of rotating members (criteria for determining "permanent" and "rotating" might be population and economic size); it is expected that governments would be represented at a high level by ministers or other officials from the ministries which are most directly relevant to the agenda subject; meetings would be held on an as needed basis, normally 1-3 days in duration; all decisions would be taken by consensus.

"Support: The Board would be supported by a Bureau of Global Watch located in the Department for International Economic and Social Affairs (DIESA). Drawing heavily upon electronic and computer-based information networks such as UNEP's Earthwatch, and utilizing the existing resources of DIESA, the Bureau would gather, update, monitor and analyze a global data base on each item which the Board has placed on its "human security" agenda.

"Organizational status: While ultimately the Board should be given an explicit basis in the Charter, for the present it should be attached to ECOSOC but report to the Assembly directly once a year at the same time as the ECOSOC makes its report.

"Why a new body?: Existing U.N. machinery is inadequate to address, authoritatively and effectively, urgent issues of human security and welfare. The Second and Third Committees and ECOSOC are too large, too comprehensive in their agendas, and their delegations often too junior to have the authority for so important a task.

A Two-Step Approach Toward a More Integrated U.N. System

"Why is a more integrated system necessary?: It is essential to create an apparatus for identifying, analyzing and proposing responses to the kinds of issues described above that is integrated intellectually and employs the sectoral expertise of the U.N.'s economic and social agencies in a coordinated manner. Most problems requiring international management overlap the spheres of several

agencies and U.N. programs. YET THERE IS NO CENTER AT THE CENTER OF THE U.N. SYSTEM and therefore no means for putting to work the system's rich potential for interdisciplinary analysis to identify the global issues on which national interests converge and where high levels of cooperation are necessary and feasible.

"The Two-Step Approach: The panel recommends creation of a single commission, composed of the Directors General of all the main agencies in the economic and social fields, mandated to develop integrated responses to global issues through joint programming, and development of a consolidated U.N. system budget. Such a Commission however is not feasible for immediate implementation due to the scale of the constitutional, structural and budgetary changes involved. The panel therefore adopted the Commission as a medium-term goal toward which the U.N. system should evolve. As an immediate step in the direction of the U.N. Commission it calls for a commission with advisory powers only.

Step I – The U.N. Advisory Commission:

"COMPOSITION: the Advisory Commission would consist of 5 persons, selected by the Secretary-General, with outstanding international reputations in the economic and social field.

"FUNCTION: It would identify emerging issues of a global or regional scale that cross over several agencies fields of concern. Following consultations with agency heads, it would propose joint approaches to these problems. It would also present proposals to the new Ministerial Board suggesting actions by member states or international institutions regarding these "crossover" issues. It would conduct regular reviews of the major program emphases in the economic and social area in light of global trends. Finally, it would prepare the agendas and follow-up on the decisions of the annual U.N. system summits (a proposal of the Group of 18 adopted last December), and participate in the summits on a co-equal basis with the specialized agency heads.

"SUPPORT: The Advisory Commission would be served by a small inter-agency staff seconded from the U.N.'s main economic and social agencies.

Step 2 – The U.N. Commission:

"COMPOSITION: The Commission would be composed of 15 to 18 Commissioners, including Directors General of the principal specialized agencies and the Bretton Woods organizations. The Commission would be nominated by the Ministerial Board and confirmed by the General Assembly, except for the heads of the IMF, World Bank and GATT whose appointment procedures would not change.

"FUNCTION: The Commission would have the same functions as the Advisory Commission except that it would also prepare a consolidated U.N. system program budget from the submissions of every participating agency (except for the IMF, World Bank and GATT) for submission to the General Assembly for its approval.

"SUPPORT: The Commission would have its own budget and, like the Ministerial Board, would draw upon DIESA for substantive support.

Development Assistance Board

"In order to improve the quality and coherence of U.N. development assistance and to reduce overlap and duplication, the separate executive boards of UNDP, UNFPA, WFP, and UNICEF should be replaced by a single Development Assistance Board. The Board would exercise oversight of all program proposals, conducting reviews before the start of fundraising efforts in order to ensure influence upon the overall scope and content of work programs. The Board would also be responsible for development of a conceptual framework for U.N. development assistance which leads gradually to appropriate specialization.

Elimination of Second and Third Committees; Expansion of ECOSOC to Plenary Size

"To eliminate the nearly complete duplication of agendas and debates between the Economic and Social Council (ECOSOC) and the General Assembly's committees dealing with economic and social matters (Second and Third), and to end the waste of scarce human resources which results from this duplication, the Second and Third Committees of the General Assembly should be discontinued and their duties assumed by ECOSOC, which would be enlarged to plenary size and strengthened by structural and procedural reforms, including addition of a Reports and Agenda Committee.

Merger of the Special Political Committee into the Fourth Committee

"In view of the steady decline in the agenda and responsibilities of the Fourth Committee as the global movement toward decolonization nears completion; in view of the overlap in significant parts of the agendas of the Fourth Committee and the Special Political Committee; and in view of the Secretary-General's recent decision to combine the secretariats for special political questions, regional cooperation, decolonization and trusteeship, and the Council on Namibia into a single Department, the Special Political Committee and the Fourth Committee should be merged. The new committee should be called 'Committee for Non-Self-Governing Territories and Special Political Questions. '

Merger of the Department of International Economic and Social Affairs (DIESA) with the Office of the Director-General for International Economic Cooperation (DIEC)

"To improve the identification, study and management of interrelated economic and social issues by the U.N., the main economic and social secretariats (DIESA and DIEC) should be combined into a single department headed by the Director-General. The expanded DIESA should be reorganized along interdisciplinary lines, it should support the work of the Ministerial Board and the Advisory Commission and it should have expertise and data-monitoring capability in every major economic and social area embraced by the U.N. system.

Peace and Security

"The panel believes that the U.N.'s limitations in the peace and security field are more the product of contemporary international relations than of shortcomings in U.N. management or structure. Unlike social, economic and humanitarian affairs, major structural changes in U.N. peace and security mechanisms appear unpromising. Instead, consensus-building, practical implementation, and selectivity in focusing on tasks where the U.N. has a comparative advantage are critical to improving U.N. performance. This will entail some rethinking of priorities, strategies, goals and directions along lines elaborated in the report. Among the specific proposals recommended are the following:

Strengthening Cooperation With Regional Bodies

"The Secretaries-General of the United Nations and of regional organizations and their deputies should meet on a regular basis to exchange information regarding emerging disputes that might threaten international peace and security, to discuss joint measures where appropriate, and to consider common problems of financial, logistical and political support.

Multilateral Inspection Teams

"Arms reductions, because they impose higher security risks than traditional arms control steps, demand thorough, reliable and impartial verification, often beyond the capabilities of national technical means based largely on satellites. In cases involving the production or storage of weapons, satellite reconnaissance is clearly not sufficient and on-site inspection by one's adversary is generally unacceptable. There may be instances where the U.N. could provide multilateral inspection teams from a politically balanced mix of countries for third-party inspection and reporting.

Ad hoc Compliance Review Groups

"Ad hoc review groups could be established under the aegis of the Security Council to examine compliance questions related to multilateral agreements and questions arising from the reports of the proposed Multilateral Inspection Teams. After considering reports of questionable practices or apparent violations, review

groups could initiate consultations between the parties, and could refer serious breaches to the full Security Council.

The Secretary-General

"1. In choosing an individual to serve as Secretary-General, the most important international civil servant, member states have a responsibility to select someone with the qualities of leadership, integrity, vision and intellect necessary to carry out this enormously demanding job.

"2. The Secretary-General should vigorously defend his duties and prerogatives as chief executive and recognize that his responsibilities under the Charter require him to be an initiative-taker rather than a caretaker in the service of efficient management.

"3. The Secretary-General should make explicit and binding delegations of authority to capable individuals with executive responsibility for: (i) planning and development of the program budget; (ii) financial and administrative policy with particular emphasis on the personnel area; (iii) and coordination of related activities of the U.N. proper and the U.N. group.

"4. To establish a coherent administrative structure of manageable proportions, responsibility for the departmental activities funded by the U.N.'s regular budget should be coordinated in a small cabinet chaired by the Secretary-General and including among its members the Under-Secretary-General for Administration and Management and the Director General.

"5. Effective as of the next election, Secretaries General should be elected for a single term not to exceed seven years." (Ibid, pp xv-xxiv.)

The Financial Resources of the U.N.

In order to gain a deeper appreciation of the impact of the U.N. and its specialized agencies it is important to look at where it spends its tremendous resources. *Successor Vision* contains ten major studies prepared by the staff of the United Nations Management and Decision-Making Project. Maurice Bertrand prepared a report entitled, "The U.N. in Profile: How Its Resources Are Distributed." It provides an excellent overview of the financial structure of the U.N. The following charts are located in this chapter:

Table I

Distribution of U.N. Resources (U.N. Proper, Budgetary & Extrabudgetary 1986-87 in million of U.S. \$

Activities

1. Humanitarian

UNHCR \$833.2

UNWRA 582.0

Kampuchea 40.1

Subtotal 1455.3

2. Forum of Negotiations and Information

Conference Scvs. 280.7

OSSECS 4.2

Public Information 82.2

Subtotal 367.1

3. Administration

Personnel, Finances, Gen. Scvs. 363.2

Other Admin. Exps. 28.7

Subtotal 391.9

4. Economic and Social Programs

Gen. Direction 11.7

Human Rights 10.4

DIESA 62.3

DTCD 295.2

UNCTAD 71.4

International Trade Center 8.1

Human Settlement 53.5

Science and Technology 4.4

UNEP 95.7

Transnational Corporations	14.9
Disaster Relief	8.2
Drug Control	43.3
Regional Economic Commissions	291.6
UNIDO	279.4
Reg. Programs of Tech. Cooperation	36.6
Subtotal	1293.0
5. Legal Activities	
International Court of Justice	
International Law	
Subtotal	17.5
6. Political Activities	
Collective Security, Disarmament	
Trusteeship, Decolonization Overall	
Policy	197.9
Expenditures Total Net	3712.6
Staff Assessment	279.7
Total Gross	3392.4

(Ibid, pp. 356-357.)

General Distribution of U.N. Resources

According to Maurice Betrand: "There are several categories of U.N. resources:

"The assessed contributions to the U.N. budget: The scale of assessments is calculated by a formula that takes into account the absolute level of national income and the per capita national income of each member state (with the exception of the U.S. contribution, which is limited to 25 percent). The total net amount was \$1,366 million in 1984-85, \$1,463 million in 1986-87.2

"The special contributions to the three peacekeeping operations: These are not financed through the budget. The special contributions amounted to \$309.3 million in 1984-85.

"The voluntary contributions: These are either given to trust funds, pledged for specific purposes, or channeled to the U.N. through the United Nations Development Programme (UNDP), and amounted to \$2,109 million in 1984-85 and \$2,249 million in 1986-87.

"The income from revenue-producing activities and staff assessment: \$301 million in 1984-85; \$327 million in 1986-87.

"Total resources (including peacekeeping operations) were \$4,030 million in 1984-85, of which \$1,611 (40 percent) were budgetary funds. The distribution of these resources among the various functions and programs is shown in Table I for the bienniums 1984-85 and 1986-87 in millions of U.S. dollars.

"The distribution of the total resources as described in the program budget (not including peacekeeping operations) shows that the U.N. is mainly an economic and social organization, with heavy emphasis on humanitarian and operational activities in the field of development. In fact, 75 percent of the U.N.'s resources are used in these fields. Political and legal activities represent less than 6 percent. The remaining 20 percent is used for the support of the forum of discussion and negotiation and for general administration.

"The budgetary resources provided by assessed contributions to the U.N.'s regular budget are used for the economic and social programs, the forum of discussions, and the administrative expenditures. Extrabudgetary resources, greater than the budgetary, are distributed between humanitarian activities (65 percent) and technical cooperation (35 percent). Finally, the financing of peacekeeping operations (partially voluntary, partially calculated according to a special scale of assessments) represents 7.6 percent of the total amount of resources available to the U.N.

Humanitarian and Operational Expenses

"The humanitarian and operational character of the U. N. would appear even more striking when one considers the resources of the entities directly related to it. For example, programs like UNDP, UNICEF, WFP, and UNFPA, which are partially humanitarian and mainly operational, had resources amounting, for the biennium 1984-85, to an amount close to \$4 billion.

"U. N. Development Programme (UNDP) \$1,525.4

"Other contributions to UNDP and its trust funds 79.9

"U.N. Children's Fund (UNICEF) 634.1

"U.N. Fund for Population Activities (UNFPA) 259.4

"World Food Programme (WFP) \$1,473.0

"Total \$3,971.8

"It is not possible, however, to add this amount to the resources of the U.N. proper, if one wants to calculate the costs of the activity of the U.N. and its affiliates. The resources of UNDP (and partially those of UNFPA) are distributed to "executive agencies" like the specialized agencies and the U.N. itself (extrabudgetary resources for technical cooperation quoted above for the U.N. proper are in large part UNDP funds). The magnitude of the expenditures of the four programs listed above can be estimated by taking into account for UNDP only the amount of its administrative budget (\$232 million), which includes projects executed by UNDP itself through its office of program execution, thereby reducing the total to roughly \$2,600 million.

"When this amount is added to the expenditures of the U.N. proper, the total is \$6,630 million for 1984-85, of which \$1,611 million is budgetary, bringing the percentages of budgetary and extrabudgetary contributions to roughly 26 percent and 74 percent, respectively.

"The expenditures of the other organizations of the U.N. system (FAO, ILO, WHO, UNESCO, IAEA, ICAO, UPU, ITU, IMO, WMO, WIPO) for the same period amount to \$4,009 million, of which \$2,093 million are assessed contributions and \$1,916 million voluntary contributions. The major part of these voluntary contributions is used for operational activities and more than half are UNDP funds. The relative importance of these expenditures of the U.N. proper and its direct affiliates in the U.N. system is shown by the following percentages:

U.N. Proper \$ 4,030 million 37.9% of Total together

U.N. Affiliates \$ 2,600 million 24.4% of Total 62.3%

Other Organizations of

the U.N. System \$ 4,009 million 37.6% of Total

Total \$10,639 million 99.9%

The U.N. is not only the centerpiece of a system that devotes the bulk of its resources to humanitarian and operational activities but is itself the main component of the system. (Ibid, pp. 358-360.)

Unelected International Bureaucrats

The elite financial powers have a lot of time and prestige invested in the U.N. apparatus, however, nearly all of the money invested in the U.N. has come from the U.S. taxpayers. Billions and billions of dollars have been expended by international bureaucrats who are not elected and not accountable to the people in each of the nation-states throughout the world.

A New Approach to Global Governance

Although the elite continue to support the U.N., they have decided to utilize a far more effective tool for uniting or harmonizing the economics of Japan, Europe and the United States. That is the trilateral super-state which is operated through a network of international organizations such as the WTO, IMF, OECD, BIS, IBRD and the Economic Summitry offices in the G-7 or the advanced nations of the world.

The U.N. Fails to Lead the People of the Earth into a World State

Over the years the critics of the United Nations have steadily increased. As originally visioned, the U.N. was to guide the world into a state of global governance, however, it soon became apparent that a so-called peace organization could not function very well when its members were made up of communistic and socialistic nations, totalitarian dictators and aggressive and war-like countries. In addition, the one-country one-vote procedure allowed the third world to take over the U.N. General Assembly and turn it into a socialist debating society dedicated to global redistribution of income. Funds have continually flowed from such advanced countries as the U.S. to the third and fourth world nations. Global socialism only enriches the sub-elite in these countries. Very little actual aid and benefit reaches the people in these nations. And the U.S. taxpayers have paid most of the annual dues given to the U.N. and its specialized organizations.

The U.N. Is a Useful Tool in the Hands of the Elite Financial Powers

Although the U.N. has disappointed the elite financial powers, it has served to promote socialism, secularism and internationalism throughout the world. Therefore, the elite continues to support it. However, they have changed their strategy for creating a world system of financial and economic power under the guidance of the U.N. The third try at world order is designed to strengthen and empower key institutions such as the IMF, IBRD, WTO, BIS, OECD, NAFTA and to harmonize and merge the economies of the Western World, particularly the trilateral nations. In other words, the real center of administrative power resides in these key international institutions, not the U.N. It is merely a useful tool in the hands of the elite to condition the minds of the people throughout the world to think globally. Therefore, we can expect the elite to continually expand the power and influence of the U.N. and to drain the taxpayers of funds to promote U.N.

objectives, even though these objectives violate the freedom, sovereignty and independence of the United States.

Part XII Conclusion

36. The Establishment of an Imperial World State

A survey of world history demonstrates that since the days of the League of Nations there has been a steady and uninterrupted transfer of political and economic sovereignty from nation-states to international institutions. There is now in existence a system of government at the global level where a few "prestigious citizens" from the United States, Europe, Asia and elsewhere exercise a tremendous amount of power. These individuals constitute the elite financial oligarchy who are attempting to manage the economic, political, financial and social systems of the world as a single unit. The goal of these influential and powerful individuals to "create a world system of financial control in private hands able to dominate the political system of each country and the economy of the world as a whole." (Carroll Quigley, *Tragedy & Hope*, p. 324)

Merger of the Economies of the Western World

A monumental effort is underway to merge the economies of the East and West and North and South together into a unified world system. First, it is occurring by construction of international bodies with universal or near universal memberships. These include such institutions as the BIS, OECD, IMF, IBRD, WTO, NAFTA, etc. Second, nations are transferring political and economic sovereignty to these bodies. These bodies begin making "international rules" and require adherence by nation-states. Soon the blur between international and national disappears. Third, the multitude of existing international bodies are joined together by close and continuous collaboration to constitute a closely knit and functional imperial world system.

The Gradual Evolution of a Global System of Governance

Since the League of Nations, we have been witnessing the gradual evolution or construction of a global system of governance and a new educational philosophy based upon interdependence. This philosophy is creating the foundation for a world state.

A detailed examination of the existing international charters, treaties, and agreements demonstrate that the current world order contains a mixture of socialism, secularism, internationalism, monopoly capitalism, civil law, finance capitalism, and corporate socialism. This system does not operate by the voice of the people or by the voice of the majority. It is operated by a few elite planners selected from various parts of the world. The elite financial oligarchy have been

able to persuade a multitude of media representatives, government officials and academic figures to uphold and promote their system of global governance.

Management of the Emerging World State

It is important to understand that international institutions are administered and staffed by mere technicians whose allegiance to internationalism is beyond question. The technicians serve the real forces of internationalism which are key international bankers, investment bankers and corporate directors from the United States, Europe, Asia and elsewhere. These groups view the world as one economic unit to be managed by trusted and carefully selected international technocrats. The individuals who serve as "Director Generals" or "Managing Directors" are mere international civil servants of the powerful corporate and financial figures who guide the destiny of nations. The elite financial powers are attempting to eradicate the nation-state and over 160 individual economies in the world. Admittedly, this is a formidable task which has taken hundreds of billions of dollars and over 100 years to accomplish.

The Nation State is a Hinderance to the Development of a New Imperial System

The financial elite own and control companies with subsidiaries in nearly every country in the world. The nation-state is a hinderance to their operation. Therefore, they set up organizations such as the Council on Foreign Relations. The Council hires intellectuals such as Miriam Camps to write proposals such as, "The Case for a Global Trade Organization." World opinion can then be molded among the educated, media, and the populace, thereby creating a climate for the construction of international institutions such as the IMF, GATT or WTO. These reports and studies attack economic nationalism as the great villain of our age and call for international decision-making. After years of strenuous effort, the elite have nearly succeeded in establishing their long-term dream – a global economic system under their complete control and domination. With world trade controlled by international institutions such as GATT (now the new WTO), the multinational corporate directors and their colleagues in the financial world are able to move freely throughout the entire planet unhindered by national governments and "antiquated laws" based upon national sovereignty.

Wealth Has Been Concentrating Over the Last 300 Years Throughout the World

The multinational corporate director actively promotes a global trading and production system in order to create international cartels and monopolies. This is monopoly capitalism. The international banker and investment banker work actively to promote a global monetary and financial system in private hands controlled at the international level by global institutions which are not accountable to national governments and the people in various nations. This is finance capitalism. The process is now completely intertwined and interlocked as to be nearly indistinguishable. For the last 300 years wealth has become more and more concentrated as mergers, acquisitions and alliances have resulted in international cartels in nearly every area of business activity. If the mergers, acquisitions and alliances continue at their present pace over the next several decades, the largest multinational corporations, international banks and global investment houses will control all business activity on the earth. Through the process of inter-locking directorates, the top 500 corporations are beginning to resemble a giant world corporation which is able to control the destiny of the earth.

Establishment of a Global Central Bank to Coordinate Banking Activities in the Nation-States

Once the elite financial powers established central banks in every country in the world, the next step was to create a global central bank. This was the Bank for International Settlements in Basle in 1929. The BIS, as noted by Carroll Quigley, was to coordinate the central banking system. The next step was to move toward the creation of a federal reserve system for the world. The IMF and OECD were created to nudge the world in this direction. With the creation of the SDR and the greatly strengthened powers of the IMF, movement toward a global currency and a global world bank are proceeding. The creation of "megabyte money" is accelerating the development of a world financial and economic system in private hands able to dominate the nations of the earth.

These influential institutions are assisted by the World Trade Organization, a powerful new international organization which was created to manage all of the trade on the earth. Eventually all nations will be brought into the system.

The Foundation is Currently in Place for Controlling the Creation of Money, Credit, Trade and the Natural Resources of the World

With the establishment of the BIS, IMF, OECD, IBRD and WTO, the foundation is already in place for the control of money, trade and natural resources

throughout the world. Eventually the remaining communist nations will be drawn into the system. This process is already occurring as Russia is being integrated into the international institutions which govern the world. In the not too distant future, China will be brought fully into the international system and the process will be complete. The entire world will be a part of a powerful "new Imperial System" and the nation-state will become an administrative unit of the renovated world order.

The socialists and communists throughout the world are utilized by the elite international bankers, investment bankers and corporate directors in the United States, Europe, Asia and elsewhere to control the people on the earth. Central bankers, directors of international institutions, prime ministers, presidents, kings, congressmen, senators, media representatives, scholars, and educators are also under the control and influence of these powerful groups of international citizens who have no allegiance to any nation or people.

A Global Game of Monopoly

The name of the high powered game of these influential and powerful men in the United States, Europe, Asia and elsewhere is called "Power and Gain," an international version of the popular game of Monopoly distributed by Parker Brothers. Very few copies of the playing rules are available, however, if one knows where to look, they will discover that they exist.

It is the elite multinational corporate directors, investment bankers and international bankers and their global planners from throughout the advanced world who brought forth such concepts as international cooperation and global interdependence; such institutions as the League of Nations, the United Nations, the Bretton Woods System, NATO, NAFTA and Trilateralism. They are the driving forces behind NAFTA and the European Community. These men control the wealth of the world. They control the intellectual world and the educational systems of the earth. They control public opinion through giant multinational media conglomerates. They control government officials through careful manipulation and campaign contributions. Their power and wealth is being enhanced as multinational corporations expand through mergers, acquisitions and alliances. These individuals are acquiring company after company and gigantic international cartels and monopolies are being created in the areas of finance, business, agriculture, telecommunication, computers, media, industry, etc. These elite groups finance conservatives, liberals, socialists and communists. No group is beyond their reach and no group has not been affected by their power and influence. WTO policies are formulated in quiet boardrooms long before they appear in Geneva. The WTO was created because the "powers that preside over the fate of nations" have called it into being at this time.

The Elite Are Faced with Major Challenges to the Process of Globalization

As the elite have increased in power in recent years so has their problems. Their problems arise from two main sources – internal and external. The internal threat to the emerging world order is due to its foundation being built upon the principles of socialism, secularism, finance capitalism, corporate socialism, monopoly capitalism, etc. These principles are structurally unstable, deficient, flawed and require continual mending to keep the international financial, economic and monetary systems afloat. And that translates into more and more taxes and greater and greater interest on government debt being confiscated from the taxpayers of the nation-states by this group to pay for the construction and upkeep of the global system. For example, the Mexican Peso Bailout may cost the American taxpayers billions of dollars in the long run. NAFTA may cost the American taxpayers over \$20 billion dollars.

The external threat is from freedom-loving people throughout the world who are opposed to the ideology and institutions established by the elite to govern the nation-state and the world at large. The ideology of the elite is based upon civil law and force and it is not cognizant or permissive of the principles of freedom and liberty. There will always be people in each nation who will not accept the principles and philosophies of the elite and will eventually resist the higher and higher taxes and government regulation of their lives and businesses. They will also reject the mass indoctrination which is occurring on a global scale. There will continue to be pockets of resistance on the planet which will plague the elite by their unequivocal dedication to the principles of freedom and liberty. The battle between the forces of internationalism and the forces of nationalism will continue until the end of the world.

The Future Demise of the Imperial World Order is Assured

The demise of the "new Imperial System" will result from internal feuds and global discord around the world in the form of ethnic, cultural, religious, financial and economic wars. In other words, the existing world order has built into it the seeds of its own destruction. As the elite forces in the United States, Europe, Asia, etc., move to subjugate the earth – its people and natural resources – they will only be faced with greater problems and internal conflicts. They will not be able to control these events. These elite forces will also turn upon themselves to their own destruction, even though today it appears that they are invincible. The leaders of the elite will quarrel and fight among themselves for more and more power. The forces of nationalism will continue to challenge the forces of internationalism with a resulting propagation of wars in every nation-state. The forces of internationalism will increasingly resort to greater and greater force and deception in order to guide the earth's inhabitants into their "new Imperial System."

The Former Soviet Union and China Will Join the Imperial World System in the Near Future

Before the "new Imperial System" is fully operational, Russia and China will need to be admitted "officially" into the system. Before this occurs there will likely be another major world war. The financial elite are aware that during war people transfer tremendous power to governments. In order to put the World State into final and complete operation on the earth, it will be necessary to persuade the inhabitants of the earth that global governance by international institutions under elite domination is the only way that peace will ever be achieved. This was the argument they used to persuade the United States to enter World War I and World War II. It was the same argument that they used to persuade the members of the U. S. Senate to ratify the United Nation's treaty, NATO and a host of other such agreements. They will continue to argue that international problems require international solutions. In the process a host of new international institutions will be created and put in place to manage the oceans, outer space, environment and other so-called global problems. The same words are heard over and over – "we need to strengthen existing international institutions" and "we need to create new one to govern international problems." However, it will require another world war to persuade the earth's inhabitants to totally accept global governance. That war will center in the Middle East, but its repercussions will be global. After another major war, the elite are hopeful that the "new Imperial System" will be fully operational.

Use of the Israeli-Arab Conflict to Further the Plans of the Elite Financial Oligarchy

There will be no peace in the Middle East. The Israeli-Arab conflict is currently being used by the elite financial oligarchy in the United States, Europe, Asia, and elsewhere to further the development of the "new Imperial System." The conflict is being nurtured along. Both sides are being provided with military equipment by the West. It has always been the goal of the elite who control Russia to dominate the Middle East and its valuable oil fields. Therefore, the Russian elite continually promote the Arab hatred of the Israelis. The elite feel that it will be impossible to totally subjugate the Western World and its freedom-loving people without another major world war. War, to the elite financial oligarchy, is just another business strategy. Since business is war, it follows that war is good business for certain individuals and firms. A world war in the Middle East would further integration of the world into the "new Imperial System." History demonstrates that after every war or crisis there is tremendous centralization and consolidation of power in governments at the national and international level.

The Long-Range Goal of Creating an Imperial World State Under the Control of the Elite Financial Oligarchy

In order to understand the role of the Middle East and its turbulent history over the last few years, you must understand the long-range goal of the financial powers that dominate the earth today. *Global Governance* outlines and documents the goals of the elite financial powers which preside over the earth today. The end result of the new world order is an Imperial World State where financial, political and economic power is concentrated in the hands of a ruling elite financial oligarchy.

There will be no peace in the Middle East because that would frustrate the long-range goal of the elite. The Middle East is without question the most unstable area in the world. It is because of the regional instability that the forces bent upon the construction of an imperial world order are attempting to bring to pass a final series of events that will catapult the entire world into an Imperial World State and bring about the death of the nation-state and the doctrine of national sovereignty. The long-range goal of the elite financial oligarchy in the United States, Europe, Asia and elsewhere is to "create a world system of financial control in private hands able to dominate the political system of each country and the economy of the world as a whole." (Carroll Quigley, *Tragedy & Hope*, p. 324)

A Possible Scenario for the Future

In the future, we may see the following scenario unfold as the forces of internationalism seek to bring about a "new Imperial System" that will rival the old Roman Empire. Russia must control the Middle East in order to secure control of this region and the oil fields in the Arab nations. The Arab world will be guided further into the Russian camp. The Arab hatred for the Israelis will be carefully nurtured and promoted. The heated debate over Judea and Samaria will serve as the catalyst for the eventual election of strong conservative forces in the Israeli government. These leaders will take a bold stance both diplomatically and militarily against the Palestinians. The Arab world and Russia will invade the nation of Israel. Russia will cut off oil to the West. There will be a severe crisis in Europe, Japan and the United States and other parts of the world. Anarchy will reign. The people of the world will turn against Israel and demand it surrender to the Russian and Arab forces. The people of the Western world will call for their leaders to end the crisis. The people will be told that the only way to end this terrible conflict will be to accept a system of global governance under the "new Imperial System." The war in the Middle East creates economic chaos throughout the world. The elite face intense pressure from the conflict in the Middle East and they begin to war among themselves. Military conflicts break out all over the world. The international financial, economic and trading systems of the elite financial oligarchy collapse. Every stock market on earth crashes in a single day. Nuclear weapons are launched by various nations and World War III is underway.

The horrors of war, pestilence and plague create unbelievable havoc throughout the nations of the earth. Billions of people are slain.

The World's Greatest Tyranny is in the Final Stages of Development

While this is just a scenario, many phases of it could occur in the near future. However, before this scenario or others similar to it occur, the evolving international financial and economic systems will need to be enlarged and strengthened. That process is currently under way and has been the subject of this treatise. As this system emerges and more and more political and economic sovereignty is transferred to international institutions, the flame of liberty is being gradually extinguished on the earth and the world's greatest tyranny is emerging under a "new Imperial System."

The Philosophical Foundation of the Imperial World Order

In order to guide the people and nations of the earth into a state of global governance, it was necessary for the elites in New York, Toronto, London, Frankfurt, Paris, Rome and Tokyo to support a set of political, economic, social and religious philosophies that would advance their long-term objectives. These philosophies included:

- (1) Elitism
- (2) Atheism
- (3) Pantheism
- (4) Rationalism
- (5) Secularism
- (6) Marxism
- (7) Higher Criticism
- (8) Relativism
- (9) Darwinism
- (10) Uniformitarianism
- (11) Keynesianism
- (12) Freudianism

- (13) Social Darwinism
- (14) Socialism
- (15) Internationalism
- (16) Finance Capitalism
- (17) Monopoly Capitalism
- (18) Corporate Socialism
- (19) Fascism
- (20) Existentialism
- (21) New Ageism
- (22) Nazism
- (23) Hegelism
- (24) Communism
- (25) Legal Positivism
- (26) Civil Law
- (27) Environmentalism
- (28) Machiavellianism
- (29) Materialism
- (30) Consumerism
- (31) Scientism
- (32) Economic Determinism
- (33) Regimentationism
- (34) Hedonism
- (35) Legalism
- (36) Credentialism

These philosophies are the foundation of the Imperial World Order and Imperial World State that is under construction today. It is obvious that these philosophies result in a loss of freedom, economic chaos, stagnation and oppression of the people. They are being promoted throughout the world today by the financial elite in the United States, Europe, Asia and elsewhere in order to subjugate the inhabitants of the earth. These philosophies centralize power in the hands of a few carefully selected individuals – the elite financial oligarchy. These philosophies led to the rise of communism in Russia, China, North Korea, Vietnam, Cuba, etc.; the rise of Nazism in Germany and Fascism in Italy, etc. Over 180 million people have died around the world because of wars and totalitarian systems of government. How many lives could have been saved and how much human suffering could have been avoided if the elite in the United States, Europe, Asia and elsewhere had not supported the philosophies of communism, Nazism, fascism, socialism, finance capitalism, monopoly capitalism, etc. It was the international bankers of the Western World who financed the Boer War, the Japanese-Russian War, World War I and World War II.

True and Just World Order Principles Developed and Promoted by the Founding Fathers of the American Republic

The above philosophies were also intended to replace a set of principles which had been developed and promoted in early America by such leaders as Samuel Adams, James Otis, John Adams, George Mason, Patrick Henry, James Madison, Thomas Jefferson, Benjamin Franklin, George Washington, James Wilson and others. The American principles were also global in nature and they challenged the elite ideologies which led to bondage and centralized government. The American principles were based upon a Biblical worldview and sustained the natural rights of mankind. The codification and blending of these principles into a new form of government constitutes the remarkable genius of the founding fathers of the American Republic. Known as republican government, it was a revolutionary system which upheld the inalienable rights of mankind. The founding fathers believed that all rights were a gift from the Creator and could not be surrendered or taken away by men or governments. The principles which the founding fathers promoted included:

- (1) Property Rights
- (2) Justice
- (3) Religious Freedom
- (4) Common Law
- (5) Republican Government

- (6) Federalism
- (7) Bill of Rights
- (8) Individual Sovereignty
- (9) City Sovereignty
- (10) County Sovereignty
- (11) State Sovereignty
- (12) National Sovereignty
- (13) Separation of Power
- (14) Checks and Balances
- (15) Gold and Silver Standard
- (16) Written Constitution
- (17) Equality Before the Law
- (18) Trial by Jury
- (19) Local Self-Government
- (20) Limited Government
- (21) Representative Government
- (22) Free Market Economics
- (23) Natural Rights
- (24) Public Virtue
- (25) Frequent Elections
- (26) Judicial Review
- (27) Avoidance of Entangling Alliances
- (28) Avoidance of Public Debt
- (29) Majority Rule

- (30) Liberty
- 31) Freedom
- (32) Rule by Law

The Keys to Freedom and Prosperity

These principles were established and upheld in order to maintain a state of freedom and liberty, to allow government to be controlled by the people, to allow individuals to prosper and to allow people to be free of centralized and tyrannical government. The American principles constitute the basis for developing a true and just world order. One of the most important aspects of these principles is that they prevent a few individuals – an elite financial oligarchy – from gaining control of a nation and its capital and using it for their own selfish purposes. Is it any wonder that these principles along with the founding fathers of the American Republic have been attacked, ridiculed and abandoned by the financial elite who are seeking to create a "world system of financial control in private hands able to dominate the political system of each country and the economy of the world as a whole." (Carroll Quigley, *Tragedy & Hope*, p. 324)

American Taxes Pay for the Construction of the Imperial World Order

The American people are also the most generous people on earth. One of the greatest ironies of the 20th century is that the American people, since the early 1900s, have helped build the current system of global governance through their tax dollars (government guaranteed loans, subsidies, subscriptions to international organizations, foreign aid, etc.). Over seven trillion dollars have been taken from American taxpayers and used by the elite financial oligarchy to create a system of global governance and a "world system of financial control in private hands." (Quigley, *Tragedy & Hope*, p. 324.)

The Most Powerful People on Earth

The American people are the most powerful people on earth. The founding fathers of the American Republic created a unique system of government called federalism where power was not only limited, decentralized and separated, but the people were sovereign and their rights preserved inviolate. The dynamic power of representative government allows people to choose their elected officials in frequent elections. The state constitutions allow the people to elect their governors, state officials and representatives. The U. S. Constitution allows the people to choose the entire House of Representatives every two years and one-third of the U. S. Senate every two years too. In addition, the founding fathers placed the power to raise revenue closest to the people. Since all bills of revenue originate in the U. S. House of Representatives, this unique body actually controls the Executive and Judicial branches of government. The U. S. House of Representatives is the most

powerful government body in the world and its members are totally accountable to the people in America. The members of this body hold in their hands the power to restore the freedoms and liberties of the American people which have been given away by members of earlier Congresses from 1865 to the present. If the American people desire to maintain their constitutional form of government, limit the powers of Congress, the executive and judicial branches of government at the national level, the power is in their hands. Every two years the American people could, if they so chose, send 435 new representatives and 33 new senators to Washington, D. C. with instructions to preserve the natural rights and property rights bequeathed to the people on earth by God. The unprecedented power of the American people resides in the principles of frequent elections and representative government.

The Keys for Developing a Free, Sovereign and Independent America

Will America's freedom, sovereignty and independence be preserved in the days ahead? Many people feel that America's present state of affairs could be likened to the fate of the Titanic. If we pursue our present course we will hit an iceberg that will cause financial bankruptcy, bondage, anarchy and chaos. Nevertheless, a host of people believe that the present course is just fine and there are no icebergs in the path of America. Other people feel that all we need to do is to straighten a few of the deck chairs and all will be well. Some people accept the premise that a course change of one or two degrees is all that is needed. Many people sense that a major course adjustment is necessary if America is to avoid a major political, economic, social and financial disaster in the future. I believe that the latter group is correct.

If the American people are going to regain their political, economic and financial liberties and effectively oppose the powerful forces who are determined to create "a world system of financial control in private hands able to dominate the political system of each country and the economy of the world as a whole," (Quigley, *Tragedy & Hope*, p. 324) they should take the following steps, however, to do so would require courage like unto Daniel of Old when he stepped into the lion's den.

First, the American people should understand the grand principles of republican government, free market economics and natural law. Books such as *Discourses Concerning Government* (Algernon Sidney), *Commentaries on the Laws of England* (William Blackstone), *Second Treatise of Government* (John Locke), *Common Sense* (Thomas Paine), *The Federalist* (James Madison, Alexander Hamilton & John Jay), *Democracy in America* (Alexis de Tocqueville), *Law, Liberty & Justice* (James McClellan), *Our Ageless Constitution* (David Stedman), *The Mainspring of Human Progress* (Henry Grady Weaver), *The American Tradition* (Clarence Carson), *The Ideological Origins of the American Revolution* (Bernard Bailyn), *Seedtime of the Republic*, (Clinton Rossiter), *Power, Morals, and*

the Founding Fathers, (Adrienne Koch), *Faith & Freedom: the Christian Roots of American Liberty*, (Benjamin Hart), etc., should be studied earnestly.

Second, the American people should elect individuals to public office who are good, wise and honest and truly understand the principles of freedom and liberty and oppose those who are seeking to build a global system of governance.

Third, the American people should pull all of their funds out of certain Wall Street corporations and reinvest it with companies that are pro-America. They cannot oppose the forces of internationalism on Wall Street while empowering them with billions of dollars in investment funds. These firms are using the investment funds of the American people to create international cartels and monopolies, invest in foreign nations, establish alliances with foreign companies, move factories overseas, establish manufacturing plants in foreign nations, finance wars and armaments and to support organizations and causes that are opposed to genuine political, economic and religious liberty. The American people should take all of the funds they have withdrawn from these Wall Street and global corporations and use it to rebuild America's agricultural, industrial and manufacturing base. The American people also should withdraw their money from mutual funds and place it in businesses that are helping to strengthen the American economy. When you invest in a mutual fund you have no idea where the funds are going. The funds could be used to build up a giant monopoly or cartel or end up in a Third or Fourth World country.

Fourth, the American people should buy American made products in order to build up the nation's manufacturing, agricultural and industrial base. The American people should support American workers if they want to preserve our nation's standard of living and the original American Dream. The purchase of American goods and services is the key to the revival of America's economy.

Fifth, the American people should require Congress to raise tariffs on all imported goods coming into the United States. For example, Congress should establish a 50% tariff on all imports from the advanced countries, a 75% tariff on all imports from third world nations, and a 100% tariff on all imports from communist nations such as China, etc. The latter two tariffs would help end slave, children and peasant labor. All raw materials, natural products, etc., which are not prevalent in the United States should be placed on a tariff free list. The founding fathers created a common market in America and placed a tariff barrier around our nation in order to create the most dynamic and prosperous agricultural, industrial and manufacturing base in the world. Protectionism is the key to America's prosperity in the future. The forces of internationalism have been disarming the American nation and economy through so-called free trade which is a camouflage for managed trade and control by elite financial groups and planners. America's national security depends not upon a service economy alone, but a dynamic industrial, manufacturing and agricultural base as well. Economic disarmament or

so-called free trade will destroy the economy of America and place this nation in bondage to the forces of internationalism and the elite financial structures of the world. The Export-Import Bank should be terminated. U.S. taxpayers should not be required to underwrite the international trade practices of major corporations.

Sixth, the American people should require that Congress repeal the Federal Reserve Act, eliminate the Federal Reserve System, and have the U. S. Treasury issue a new currency that is backed 100% by gold and silver. The U. S. Treasury should issue new U. S. Notes and eliminate all interest-bearing obligations. The new currency should be fully redeemable in 100 percent gold specie and 100 percent silver specie. The new gold coin should contain 25.8 grains of standard gold. The new silver coin should contain 371.25 grains of pure silver. Both coins should be minted by the U.S. Treasury. The new currency or U.S. Note should also be printed by the U.S. Treasury. The gold bullion in the New York Federal Reserve Bank should be purchased by the U. S. Treasury. The bullion should be made into gold coins and gradually introduced into the U.S. market as holders of Federal Reserve Notes exchange them for gold coins. Since there are billions of dollars worth of gold buried underground in the U.S., domestic mining should be encouraged. All Federal Reserve Notes should be exchanged for the new currency or U.S. Note at a rate of exchange to be determined by Congress. A new monetary system should be inaugurated by Congress acting under the authority of Article 1, Section 8, Clause 5 of the U.S. Constitution. The rein of the elite financial oligarchy in America would abruptly end. They would no longer be able to control the currency and credit of the United States. With a 100 percent redeemable currency, the new U. S. Note would be the strongest currency in the world.

Every nation on earth should go on the gold and silver standard and establish a currency that is 100 percent redeemable in gold and silver specie. This would end the international bankers control of the world economy. However, before the nation-states of the world could issue a new currency, they would have to place the central bank in the hands of the government. And the government should be controlled exclusively by the people in each nation-state.

Seventh, the American people should require that Congress repeal the Sixteenth Amendment and eliminate the progressive income tax. The U. S. should return to the pre-1913 structure where the Federal Government receives all of its funds from tariffs, excises and imposts. All personal taxes and corporate taxes at the federal level should be eliminated. Since all tax revenues would be collected at the state level, the Internal Revenue Service could be eliminated. All inheritance taxes should be eliminated.

Eighth, the American people should require that Congress repeal the Seventeenth Amendment. Members of the U. S. Senate should be selected by members of the State Legislatures, thus restoring an important check on federal power by the state governments.

Ninth, the American people should require that their state legislatures privatize the entire public school system (elementary, junior high & high school) and return it to local control and guidance. All colleges and universities should be privatized and tenure for professors should be eliminated. Home schools and private schools should replace the existing structure of government schools. Federal and state control of education in America should be completely eliminated.

Tenth, the American people should require that Congress withdraw from all international institutions that are curtailing U. S. political and economic sovereignty (i.e., the IMF, WTO, IBRD, BIS, OECD, NATO, United Nations & Its Specialized Agencies, etc). The American people should insist that the U. S. Senate refuse to ratify any treaty that violates the sovereignty of the United States of America or any provision of the state constitutions and the U. S. Constitution. The American people should insist that the Congress terminate the fast-track authority for negotiating treaties. The American people should insist that Executive Branch terminate the use of executive agreements to bypass the treaty-making provisions of the U. S. Constitution.

Eleventh, the American people should require that Congress terminate all foreign aid programs and subscriptions to international and regional institutions and foreign nations.

Twelve, the American people should require that State Legislators, County Commissioners and City Officials insure that each city, county and state is free, sovereign and independent of the federal government and international institutions.

Thirteen, the American people should require that Congress and the State Legislatures restore the concepts of federalism, limited government, property rights, natural rights, the free market system and end the support of secularism, socialism and internationalism with tax-payer dollars.

Fourteen, the American people should require that Congress and the State Legislatures prohibit foreign investment in the United States for a period of ten years. They should require foreign companies to divest their holdings in companies which have a direct bearing on the national security of the United States. The American people would be free to purchase the stock and gain ownership of the companies.

Fifteen, the American people should require that the state legislatures restore sound commercial banking practices in America by outlawing fractional reserve banking. The state legislatures should require that all funds deposited in commercial banks be considered "specific deposit warrants." Criminal penalties should be instituted for fraud and embezzlement if a bank does not have 100 % backing in gold and silver for all its deposits. Interest rates at the commercial banks should never exceed five percent. The Federal Deposit Insurance Corporation should be terminated. U. S. taxpayers should not be required to insure and

underwrite the private banking system of the America. This agency allows the bankers to make poor management decisions and loans with the assurance that the American taxpayers will always bail them out.

Sixteen, the American people should require that each of the State Legislatures eliminate all foreign trade zones in the United States. The American people should stop giving "aid and comfort" to the enemy. After all, foreign trade in today's world is really economic warfare.

Seventeen, the American people should require that each State Legislature make English the official language of each state and end all government subsidies for multicultural programs aimed at segregating the citizens of the United States.

Eighteen, the American people should require Congress to close all foreign military bases and bring home all overseas military personnel and eliminate the U.S. Defense budget by 65%. Only 20% of the current defense budget is used to defend the United States. The remaining 80% is used for the defense of allies and third world intervention. The role of the U.S. Military is to protect the United States, not the people of Europe and the world. The allies of the United States – Canada, Europe, Japan and certain Middle Eastern countries – are fully capable of providing for their own defense. One third of the current budget would be nearly \$100 billion. National Guard and Reserve Units in all fifty states should be strengthened to ensure combat-readiness in each branch of service.

The elite financial oligarchy has used the U.S. Military to provide the protection for American international banks and corporations around the world while they constructed the "new Imperial System" and to distribute U.S. dollars around the world thus creating the Eurodollar Market. In order for the U.S. dollar to be the international currency it had to be distributed around the world. The use of the military was one of the methods the elite used. The others methods included: the Marshall Plan, Lend Lease, subscriptions to international institutions, foreign aid, government loans and subsidies, all paid in dollars.

Nineteen, the American people should require that Congress require all U.S. companies and foreign companies operating in the U. S. to reveal the names of their Board of Directors and all major stockholders. The ownership of all public and private companies should be make public to accurately assess the true extend of foreign investment in the U.S.

Twenty, the American people should require that Congress eliminate 75% of the budget for the U.S. State Department. This would remove from the public payroll the myriad of internationalists in the State Department who are using taxpayers funds to construct a system of global governance.

Twenty-one, the American people should cease supporting individuals, organizations, and programs which promote the ideology of the elite financial

oligarchy. A key to identifying such organizations and programs is their positions on managed or so called free trade and international institutions such as the International Monetary Fund. These organizations also support internationalism, corporate socialism, finance capitalism and monopoly capitalism. The American people should examine the funding sources for many of the so-called conservative organizations in the United States. It will be quite apparent which groups and individuals are promoting the principles of global governance.

Twenty-two, the American people should require that city, county and state officials establish a simplified tax system where the combined taxes at the city, county and state level would never exceed 10% of a person's gross income. For example, city taxes could be 5%, county taxes could be 1% and state taxes could be 4%. No deductions should be allowed. Businesses and corporations should not be taxed at the state level. Only individuals, shareholders and stockholders should pay taxes at the state level. Property taxes should be eliminated for individuals and corporations. A simplified tax system at the state level, where all individuals contribute to the tax base with no deductions would be simple, just, fair and equitable. This system would free the presently burdened taxpayer to save, invest and pay for his or her needs. The state should collect all taxes and distribute them to the cities and counties.

Twenty-three, the American people should require that Congress downsize the Federal Government and eliminate all unnecessary and unconstitutional departments, regulatory agencies, commissions, etc. The Departments of Agriculture, Commerce, Education, Energy, Interior, Labor, Transportation, and Veteran Affairs should be terminated. Veteran Affairs should be transferred to the Defense Department. The individual states should assume jurisdiction and responsibility for the programs administered by these departments. Agencies such as the Environmental Protection Agency, Central Intelligence Agency and National Security Council should be eliminated. All intelligence gathering should be conducted by the Defense Department. It is impossible to create and maintain monopolies without the aid of government regulatory agencies. The elite use the regulatory agencies at the national and international level of government to eliminate competition and create an environment that is ideal for the creation of corporate monopolies and cartels.

Twenty-four, the American people should require that Congress eliminate the high salaries and pension program for members of Congress and the Executive Branch. The era of the career politicians should come to an end. Campaign contributions should be limited to individuals from within the congressional district of the candidate. Individual contributions above \$250 should be prohibited. All contributions for Congressional and Presidential elections from Political Action Committees (PACs) – corporate, union, trade organizations, etc. – should be prohibited. Foreign lobbyists should not be allowed to influence legislation at the state and national levels of government. In 1996 corporate America spent over

\$242 million on Congressional and Presidential elections. These funds did not include the tens of millions of "soft dollars" which business leaders spend on the campaigns. It appears that nearly \$1.6 billion was spend on the 1996 federal elections in America. In some cases a congressional seat can be bought for approximately \$1.5 million, a senate seat for \$5 million and the presidency for \$150 million.

Twenty-five, the American people should uphold and promote the principles which formed the foundation of the American Republic. These principles are outlined above.

Twenty-six, the American people should require that Congress terminate all U.S. Government loans and loan guarantee programs to foreign nations such as Mexico, Russia, etc.

Twenty-seven, the American people should require that each state legislature prohibit the establishment and use of special "enterprise zones" for international banks. These international banking facilities (IBFs) are a replica of the well known off shore banking sanctuaries such as found in the Cayman Islands, however, they operate within the United States and the international banks are free of taxation and regulation.

Twenty-eight, the American people should withdraw all of their funds – savings, trusts, money market, investment, etc., from the global banks which are engineering the development of the "new Imperial System," and place them in locally owned banks and savings and loan institutions. Large investors should unite and create new privately owned banks.

Twenty-nine, the American people should require that Congress eliminate all subsidies and special tax concessions, including export subsidies for U.S. Corporations. These companies should compete on an equal basis with smaller companies who receive no government aid or taxpayers funds. Corporate socialism in the United States is estimated to cost taxpayers nearly \$128 billion annually. It is calculated that 125 federal programs aid the business community. The American people should require that Congress eliminate all forms of corporate socialism to domestic and international corporations. Companies and banks which face foreclosure and bankruptcy should not be bailed out with taxpayer funds.

Thirty, the American people should require that Congress eliminate the national debt, terminate the concept of deficit spending and cease borrowing funds to operate the Federal Government. The national debt, which is now over \$5 trillion and rising, was created under the deceitful guidance of the elite financial oligarchy in the United States. (On September 12, 1996 the national debt was \$5,216,902,015,633.76.) The American taxpayers are paying nearly \$250 billion annually in interest payments. The unfunded Federal benefit liabilities for Medicare, Social Security, Federal Pensions & Retiree Health, etc. is estimated to

be over \$15 trillion. Therefore, the official and unofficial Federal debt is approximately \$20 trillion.

One of the key principles of the "new Imperial System" is debt. Individuals, corporations, cities, counties, states and nations have been drawn into the web of debt or bondage to the international bankers. The international bankers support socialistic programs because the governments which embrace socialism usually end up spending more funds than they receive in taxes. The result is that the government turns to deficit spending and ends up borrowing funds from the bankers and private investors. The international bankers then collect the interest on the national debt and encourage more government spending to increase the debt and increase the interest payments. This tactic has been used in every nation on earth. And the nations of the world are in debt to the international bankers for billions of dollars. The LDCs owe over \$600 billion to the international bankers. They will never be able to repay these funds. And these funds originated in many instances from the taxpayers of the western world. The people in the Third and Fourth World nations could eliminate their debts to international institutions and international bankers if they ceased borrowing funds, issued a new government currency backed by 100% gold and silver, and established a new tariff policy. The alternative is financial chaos, bankruptcy and anarchy throughout the entire Third and Fourth World countries. The United States is approaching a similar fate. What will happen to the United States when the annual tax revenues equalize the annual interest payments on the national debt and the federal government must borrow all of its operating funds. The national debt will rise more dramatically and so will the interest payments. Will the U.S. then have to borrow funds to pay the interest payments?

If the Federal Government were significantly downsized and if a new Tariff Policy was initiated, Congress would be able to eliminate the National Debt in a decade or so.

Thirty-one, the American people should require that Congress terminate the Social Security, Medicare and Medicaid Programs. These programs should be transferred to the states where they could be administered more efficiently. Citizens who are currently enrolled in these programs should receive their full benefits. However, American citizens should be given the freedom to obtain private medical insurance without being taxed at the federal level to pay for these social programs. They should also be free to establish a private retirement program and cease paying social security. These socialistic programs were designed to increase the power of the Federal government and confiscate the earnings of the American people. They laid the foundation for deficit spending and the enormous national debt along with its huge interest payments to private investors.

Thirty-two, the American people should terminate their financial support for colleges and universities which are promoting the philosophies of the "new

Imperial System." Public colleges and universities should be privatized and downsized. The Master and Ph.D. degrees should be eliminated at public institutions. Over 33% of the professors, instructors and administrative staff should be eliminated. The concept of tenure should be eliminated. The American people should support private colleges and universities that are diligently promoting the principles outlined above which served as the foundation of the American Republic from 1620 to 1900. Private colleges and universities could offer Master and Ph.D. degrees if they are cost effective. The taxpayers should not be required to support a system that is destroying their freedom, sovereignty and independence.

Thirty-three, the American people should require that Congress prohibit further immigration into the United States for a period of ten years. This time frame would allow the millions of recent immigrants to assimilate into the American culture. Many of these individuals bring with them the foreign political, economic and religious ideologies of Europe, Asia, the Middle East, etc. Often these ideologies are not compatible with the principles of freedom and liberty. The new immigrants should be instructed in the English language, the basic Christian values of America and the principles of free market economics, natural rights, property rights, constitutional government, etc. These principles led to the development of the most free and prosperous nation on earth.

Thirty-four, the American people should require that Congress demand repayment of all foreign loans made by the United States Government. These loans were made by the taxpayers of the nation. The elite financial oligarchy has no right to transform these loans into another version of foreign aid.

Thirty-five, the American people should require that Congress balance the Federal Budget this year, not seven, nine or ten years from now. Members of Congress know that there is no way to balance the budget except to downsize government, or raise taxes, borrow more funds and increase the national debt limit. It will be impossible to maintain the present size and growth of the government without raising taxes and borrowing funds. The alternative to downsizing the federal government and restoring it to its original powers is anarchy, financial bankruptcy and chaos throughout the nation.

Thirty-six, the American people should do everything in their power to release themselves from the bondage of personal debt. Personal debt in America is estimated to be \$1.17 trillion. The elite financial oligarchy want the American people and people throughout the world to indulge themselves in the Global Shopping Mall and to go further and further into debt to pay for increased consumption. That is why they have made the credit card so easy to acquire and so easy to use. Every cardholder in the world is then able to write a loan every time they use their card. Of course, they must then begin paying the principal and high interest to the bankers of the world. Hundreds of billions of dollars are spent annually on marketing and advertising to persuade people to buy things they may

not really need. Debt is a tool of the elite financial oligarchy to control the individuals of the world. Debt is a form of bondage. Individuals and families should become free, sovereign and independent of the powerful forces creating the "new Imperial System."

Thirty-seven, the American people should refrain from purchasing U.S. Treasury Bills, Notes and Bonds. The borrowed funds are used to pay for unnecessary, unwise and unconstitutional government programs, etc. You will never limit the size and power of the Federal Government unless you curtail its power to borrow and spend. Deficit spending is bankrupting the nation and putting the U.S. economy at serious risk. If the American people continue to purchase government securities, Congress will never balance its budget and stop the cycle of deficit spending.

Thirty-eight, the American people should require that state legislatures prohibit inter-state banking. They should also prohibit foreign banking institutions from operating in the individual states. Each state should prohibit the establishment and operation of any bank or financial institution within its border that is chartered in another state or is a foreign subsidiary of a global corporation or financial institution. Each state should also require that all stockholders and officers of any state-chartered financial institution reside within the state. These laws would allow the people's money to stay within the state and not to be transferred to Wall Street or around the world. Local funds then would be once again available for local businesses.

Thirty-nine, the American people, through a group of patriotic businessmen and businesswomen, should establish a private commission, beyond the control of Congress and the elite financial oligarchy, to conduct an indepth study of the powerful forces seeking to integrate the economies of the world and establish a "new Imperial System" controlled by private individuals. The commission should determine the following: 1. The actual ownership of all international banking institutions operating in the U.S. and throughout the world. 2. The actual ownership of all investment banking institutions operating in the U.S. and throughout the world. 3. The actual ownership of all corporations operating in the U.S. and throughout the world. 4. The actual ownership of all stock of the Federal Reserve Banks in the U.S. 5. The actual expenditures of the top 500 non-profit foundations in the United States and throughout the world. 6. The actual contributions of the top 500 corporations in the world to non-profit organizations throughout the world since 1900. 7. The actual ownership of all U.S. Treasury Bills, Notes and Bonds issued by the Federal Government. 8. The actual debt of each city, county, state government in the United States and the actual debt of the Federal Government. 9. The major financial contributors in each presidential election since 1900 in the U.S. 10. The names and expenditures of foreign lobbyists and their agents in Washington, D.C. and in each state capital since 1900. 11. The membership, officers, directors, chairmen, etc., of the Business

Roundtable, Council on Foreign Relations, Trilateral Commission, Foreign Policy Association, Brookings Institution, American Enterprise Institute, Atlantic Council of the United States, Aspen Institute for Humanistic Studies, U. S. Chamber of Commerce, International Chamber of Commerce, American Bankers Association, etc., since their inception. 12. The actual deposits of each bank in the United States. 13. The number of foreign loans by banks, investment banks and financial institutions in the U.S. 14. The number of insurance companies in the U. S. and the location of their funds. 15. The number of pension funds in the U. S. and the location of their funds. 16. The number of mutual funds in the U. S. and the location of their funds. 17. The actual ownership of all savings and loans organizations operating in the U.S. 18. The dollar amount of all military and non-military contracts issued by the Federal Government since World War I. 19. The yearly dividend paid to each of the stockholders of the Federal Reserve Banks since 1914. 20. The details surrounding the First Bank of the United States, Second Bank of the United States, Senate Amendments to the Legal Tender Act of 1862, National Bank Act of 1863, Mint and Coinage Act of 1873, Resumption of Species Act of 1875, National Bank Laws of 1908, Federal Reserve Act of 1913, Banking Act of 1933, Gold Reserve Act of 1934 and the Bank Act of 1935 and recent banking acts. 21. The number of actual merger and acquisitions which have taken place throughout the world since 1900. 22. The actual contributions from corporations, unions, and trade organizations for each of the congressional elections since 1900. 23. The actual ownership of each of the central banks throughout the world. 24. The actual role played by the U. S. State Department, Commerce Department, Treasury Department, Agricultural Department, National Security Council, Central Intelligence Agency and Environmental Protection Agency in building the "new Imperial System" throughout the world.

Forty, the American people – the farmers, manufacturers, labors and small businessmen and businesswomen should unite and use their financial resources to oppose the principles, policies and programs of the elite financial oligarchy. The American people possess the greatest weapon in the world. It is the U.S. Constitution. Properly interrupted and administered it would limit the powers of the Federal Government and eliminate the stranglehold of the elite in America. The keys to restoring American's political, economic and financial sovereignty are found in Article 1, Section 8, Clauses 3 and 5 of the U.S. Constitution. These clauses contain the foundation of a constitutional monetary and free market system. However, before the people can effectively use this unique weapon to limit the powers of government and the elite, they must become familiar with the grand and glorious clauses and principles of the Constitution. A good place to start is *The Federalist*.

The Elite Financial Oligarchy Poses a Clear and Present Danger to America's Freedom, Sovereignty and Independence

It is quite clear that influential and powerful individuals, groups, institutions and organizations throughout the world are attempting to "create a world system of financial control in private hands able to dominate the political system of each country and the economy of the world as a whole." (Quigley, *Tragedy & Hope*, p. 324) They are also seeking to establish a "new Imperial System" where the nation-state is reduced to an administrative unit in a future world state. These individuals and groups pose a "clear and present danger" to the freedom, sovereignty and independence of the United States of America. We must use every legal and legislative tool at our disposal to oppose these powerful forces. The future of America and its free institutions is at stake.