



[Click here to visit the FTW Online Store!](#)

Navigation

[Printer Friendly Page](#)

Quick jump to below stories:

- ["Working Behind the Scenes": The Details of U.S. Government Support for the Venezuelan Opposition](#)
- [2-day standoff ends between Japan and South Korea](#)
- [The US Trade Deficit is Unsustainable](#)
- [Not Just A Last Resort?](#)

*[Thanks to investigative reporter and attorney Eva Golinger, it is now indisputable that the U.S. right wing was deeply involved in the abortive attempt to unseat the duly elected Venezuelan President Hugo Chavez in April of 2002. FTW thanks Narco News for furnishing this article. -JAH]*

## "Working Behind the Scenes": The Details of U.S. Government Support for the Venezuelan Opposition

**An Interview with Researcher and Attorney Eva Golinger**

By Dan Feder

Special to The Narco News Bulletin

May 31, 2005

<http://www.narconews.com/Issue37/article1307.html>

In accordance with Title 17 U.S.C. Section 107, this material is distributed without profit to those who have expressed a prior interest in receiving the included information for research and educational purposes.

In April, Venezuelan President Hugo Chávez canceled the long-running IMET (International Military Education and Training) program, which had seen Venezuelan soldiers traveling to the U.S. for training, as well as U.S. officers giving courses in Venezuela. Chávez's announcement of the program's cancellation grabbed headlines for several days, most media repeating the State Department's assertion that the announcement was "unexpected" with "no explanation." But the cancellation was the direct result of findings by a determined young Venezuelan-American attorney and journalist named Eva Golinger, who had discovered a direct connection between the program and coup-plotters in the Venezuelan military.

### Start Here

How to use this Website  
About Michael C. Ruppert  
Why Subscribe?  
Our Achievements  
Our Writers  
Upcoming Events

### Since 9/11 ▶

Bio Warfare  
The Bush Family  
Civil Liberties  
The Draft  
Drugs  
Economy  
Gov't Corrupt/Complicity  
Insider Trading  
Investigations  
Miscellaneous  
Oil & Energy  
Osama Bin Laden  
Previous Newsletters  
PROMIS Software  
Timelines  
Unscrambled Fighter Jets  
Vreeland  
Infinite War  
Watergate II

### Archives ▶

C.I.A & Drugs  
Politics  
Regional Conflicts  
The Economy  
Pandora's Box  
Hall of Unsung Heroes

### Community ▶

The Forum  
Upcoming Events

### Shop Online! ▶

Store Main Page  
New Products  
Packaged Deals  
Subscribe to FTW  
FTW Back Issues  
Videos and DVD's  
Audio CD's  
Special Investigations  
Books and Magazines  
Renewals

Donations  
FTW Catalog

Watch Lists ►  
Economy Watch

Resources ►  
About Michael C. Ruppert  
Recommended Reading  
Links  
Whistle Blowers

Website  
Information ►  
Copyright Policy  
Terms and Conditions  
Privacy Policy  
Site Map

FTW  
P.O. Box 6061-350  
Sherman Oaks, CA  
91413  
Phone:  
(818) 788-8791  
E-mail:  
service@copvclia.com



Photo: venezuelafoia.info

The 2002 coup d'état, in fact, bore all the hallmarks of past U.S. interventions in Latin America. A popular president, struggling to change the situation of social exclusion and poverty in his country, and reassert local sovereignty at the expense of U.S. political and economic interests, was forced out of office by high-ranking members of the military and representatives of the country's oligarchy. Hours after it had taken control, the U.S. State Department praised the new regime, which proceeded to dissolve all democratic institutions and constitutional rights. Almost immediately after a popular revolt and rebellion of loyal military officers returned Chávez to office, Venezuelans and observers began to denounce the coup as having been "made in the U.S.A."; a repeat of the 1973 coup against Chilean President Salvador Allende and countless others. For a time, such speculation remained just that. Both Washington and the Venezuelan opposition countered that no proof existed, and that such claims were the product of paranoid conspiracy freaks.

But the proof didn't take long to come in. Behind much of the research that demonstrated U.S. complicity were the names Eva Golinger and independent journalist (and Narco News School of Authentic Journalism professor) Jeremy Bigwood. Last winter, Golinger and Bigwood revealed that millions of dollars had been funneled into anti-Chávez groups - including major participants in the 2002 coup - through such public agencies as the National Endowment for Democracy (NED) and USAID. Other revelations followed. Much of their information came from documents revealed through the Freedom of Information Act (FOIA), and released via the website venezuelafoia.info.

I first met Golinger in Caracas this April, where both of us were attending the events organized for the 3rd anniversary of the coup and countercoup of 2002. Golinger was something of a guest of honor at the event, sharing the stage with Chávez at the opening ceremonies and frantically running around the city to meetings, speaking engagements, and interviews with the Venezuelan media.

Golinger has recently released a book, *The Chavez Code*, a more in-depth look at the information she and Bigwood uncovered. After many failed attempts to work an interview into our packed schedules in Caracas, she spoke to Narco News last week by telephone from New York.

Narco News: To start with the basics, especially for those who may not know your work, did the United States have direct involvement in the April 2002 coup in Venezuela?

Eva Golinger: Well, my opinion, based on my research, is absolutely. It depends on what you call direct, but I would say, as I've said before and as I say in the book, that there was a combination of factors: the quadrupling in financing specifically to anti-Chávez groups, at the time that [U.S. officials] knew that the very same organizations and individuals clearly were planning a coup. This shows that they had

the intention to support those activities. To me, that's direct enough. It's not just financing, it's training and political support, and military support.

Through their military training programs as well as infiltration into the Venezuelan armed forces, they were able to influence the action of the high-ranking military officers, many of whom played a direct role in the coup. The U.S. government generally isn't the one to actually execute coups or those types of activities; they work from behind the scenes, and that's precisely what they did in the case of Venezuela. There's no way to deny that. They can say, oh, it wasn't their intention, and that they said publicly that they wouldn't support a coup, which is true. But behind the scenes they were financing and encouraging those same activities and actions.

Narco News: How much money is going into opposition groups every year from the U. S.?

Eva Golinger: This particular year, it's around \$6 million. That's combined USAID and NED. We don't have the figures yet, but it probably will go up for fiscal year 2006, The State Department has already stated that they're going to increase it. President Bush, speaking before Congress in early February to justify the whole 2006 budget, actually specifically referred to the case of Venezuela and said he wanted to increase financing to political parties and civil society groups working for democracy - which is only the opposition in their eyes. But since 2001, the total calculated amount of financing is a little over \$27 million. And that's just NED and USAID; it's not CIA.

Narco News: The NED part has been pretty well publicized. What is the USAID money going to?

Eva Golinger: That's because the NED is more specific as to who they're funding, whereas USAID - first of all, they censored out the names of all the recipients of the funding in the documents they gave me. But in general it's going to the same organizations that receive NED funding, but even more groups. In the case of Venezuela, others that have received financing include the Carter Center and the OAS for all the referendum activities. The OAS got like \$100,000, but they also have their own funding. The Carter Center got \$1.75 million. Pretty much all their activities in Venezuela were funded by USAID. Which is interesting.

Narco News: I guess that wasn't a very good investment on USAID's part.

Eva Golinger: Yeah. And others: IRI, the International Republican Institute, and NDI, the National Democratic Institute, also receive aid funding for work in Venezuela, which they then are giving out - and this is in some of the documents - to Súmate, and the other political parties, like Primera Justicia and Proyecto Venezuela; the same groups that get NED funding. It's not as though there are a ton of opposition groups. We know who they all are, and pretty much all of them receive U.S. funding or training or support.

Narco News: Would you say any of these groups are actually dependent on U.S. funding?

Eva Golinger: Absolutely. Probably a majority of them are. Obviously not all of them, there are some that existed before, but the smaller organizations. In fact, one group, Asemblea de Educación, which doesn't get NED funding anymore, was dissolved, I believe. The director, Leonardo Carvajal, stated to a journalist in an interview that they existed completely on the NED funding. I have salary receipts for all the employees in the organization; they all got a direct salary from the NED. And what [Carvajal] said was that the NED had funded all the organizational and operational costs.

[Interviewer's note: Carvajal was appointed education minister under the two-day coup regime of Pedro Carmona.]

Narco News: Why did they lose their funding?

Eva Golinger: I don't know the reasons that NED stopped funding them. I mean, I would assume it has to do with the fact that they weren't pursuing anything in the area of education; all they were doing was marching in the streets. Even in their own statements to NED, they were proud of that, and that's what they would state. They weren't really complying with the contractual agreement that they had made. So, there has to be at least some minimum effort to actually pursue the projects that the NED is funding them for. Even if the funds in the end result in "extracurricular activities," still they have to be doing something, otherwise the funding will get cut.

Narco News: This kind of thing would never be tolerated in the United States, right?

Eva Golinger: Well, first of all it's illegal for any political party or campaign to get money from a foreign government, so, definitely. In the case of a foreign government funding, say, an NGO or a PR group or something like that to work in their interests, they would have to be registered in the United States with the Foreign Agent Registration Act, which is with the Department of Justice. They would have to report on their activities in a determined period. Definitely it wouldn't be permitted in the way that the NED is doing it or USAID is doing it in Venezuela. It is under the guise of one thing, when in actuality you're doing something else.

Narco News: But is it legal in Venezuela then?

Eva Golinger: No, it's not legal in Venezuela. There are a variety of different laws, though they don't have a foreign agent registration act, at least yet - hopefully they will soon. But certainly it's illegal for any organization to receive funding from a foreign government to try to overthrow the Venezuelan government. So in the case of all those organizations that receive U.S. government funding and participated in the coup, they're all violating that law, and then political parties can't receive funding from a foreign government either. As far as I understand, all those situations are being investigated. But the only one where there's actually been a case brought is Súmate [the main political group behind the 2004 recall referendum].

Narco News: Where is that case at right now?

Eva Golinger: It's pending. The preliminary hearing was scheduled for November 2, and it was postponed. The Supreme Court reviewed it in the penal chamber, despite the fact that the chief justice said that they wouldn't review it, but the penal chamber reviewed it and decided that they need to have a preliminary hearing on whether or not there were even any merits in the case before they could go forward with the case. But the date hasn't been set.

The Venezuelan government is not caving in to U.S. pressure, but the United States has made an incredible effort to get the case dropped. The president of the NED, Carl Gershman, went to Venezuela last November and threatened the attorney general and the chief justice of the Supreme Court that if they didn't drop the case, there would be consequences. And many of those consequences have already been put into place. The World Bank cut funding to Venezuela's Supreme Court for a juridical reform program, and that was one of the threats that Carl Gershman made to [Chief Justice] Ivan Rincon. And the other was that it would worsen relations between the two nations; that they would put the pressure on internationally. Now they're saying that Venezuela is a country that engages in political persecution, and bringing out as much influence as they can. You know, Human Rights Watch, Amnesty International, all the different organizations, just trying to pressure Venezuela.

Narco News: How exactly did the U.S. infiltrate the Venezuelan armed forces?

Eva Golinger: According to the documents I have that I've made public, this is mainly regarding the IMET (International Military Education and Training) program. It's an international exchange program in which Venezuela had been a leading participant, although it's not as though U.S. military officers are being trained in Venezuela. They go to Venezuela to and give courses and programs. That's something that finally President Chavez just stopped, but at the time of the coup it was in action.

In documents that I obtained from the State Department regarding the program, they clearly stated that the objectives are to obtain influence in the high ranks of the Venezuelan military. They also stated that one of the requirements of the program is that when an officer or soldier is sent to the U.S. as part of the IMET program, the Venezuelan military has to guarantee on return the individual be given a high level or command position.

In one particular document, they give an example of one of the successes of the program: General Raul Salazar. General Raul Salazar was, at the time of the 1992 military rebellion that President Chávez led, actually a high ranking officer, and he suppressed Chávez and the other officers. But for some reason, he worked his way into the likes of Chávez, and became Chávez's first minister of defense. At the time of the coup, he was the ambassador to Spain, and Spain was the other key country involved in the coup. Venezuelan opposition members like Pedro Carmona and others who were planning the coup itself took a trip to Spain in the weeks before. There's that whole story about how Carmona made his presidential sash in Madrid.

Here in the documents they're lauding the fact that, Raul Salazar is our best example here, and refer to him as somebody who promotes U.S. interests. That's interesting because he happens to be one of the highest-level military officials that penetrated the Chávez government, actually becoming a key part of it, and then turned on it at the time of the coup. Because of that, it could be said that all along he was supporting U.S. interests, but for some reason Chavez believed and trusted in him enough to make him defense minister, and then an ambassador, while at the same time the U.S. government had maintained an influence and control over him.

Narco News: Was this research of yours specifically what led to Chávez canceling the IMET program in April?

Eva Golinger: Actually, yeah, that is why they ended it, because they know now that it cannot go on. [Before Chávez's presidency], the program didn't have the same impact, because the entire government was following U.S. orders or working in the interests of the U.S. But in this particular case, where you have a government that is not subservient to U.S. interests, and in fact threatens U.S. interests - and the U.S. has been very open and direct about that and hostile towards the government - you cannot have a program going on where your military personnel are being trained by the United States. Especially when you know the program's goals and objectives are to obtain influence within the high ranks of your military. Then that's dangerous. You're letting the enemy in without even giving it a hard time, giving the U.S. just open reign over the Venezuelan armed forces.

That doesn't mean that it's all just going to stop. There is still a whole multitude of Venezuelan military officials that have already received training in the U.S. and already have direct contacts with the U.S. And of course the military attaches are still in Venezuela, but that's a whole separate issue. That's not the IMET program, and they engage in other activities that could be corrupting Venezuelan military officers. They will remain. It's not like all U.S. military personnel will be forced to leave. It's just the exchange program that has stopped, which means Venezuelan soldiers aren't going to go to the U.S. to be trained, and U.S. military officers are no longer going to be allowed to instruct courses within Venezuela. Which is a good thing, for Venezuela.

Narco News: Can you describe how you go about researching these things?

Eva Golinger: I contract Jeremy Bigwood to actually submit the FOIA (Freedom of Information Act) requests, and I give him the information on what I'm interested in finding. And in some cases it's very general - dates, or places, or people, or just issues. And then once any documents come back, I go through all them, and try to study and analyze them as much as possible to see what information, if any, can be used. Because in many cases they're either heavily censored, or they're useless. I mean, I don't think any are useless, but, in many cases, they're not worthy of any kind of media attention. Then in addition to that, I research public information; I read massive amounts of articles all the time as well, in all kinds of press. I read a lot of opposition information and media. And I always am conducting interviews with people to put this stuff into context.

But most of my research is based on the documents themselves. A lot of them are just informational reports from the state department, from the embassy, or from NED or USAID. And it's really taking that all, studying that information, going back and researching the time - because some are two years old, some are three, some are one - and then putting it into the larger context of all the documents. They come separately, on separate issues, but they're all interrelated.

Narco News: Is your work having any effect on the U.S. government so far?

Eva Golinger: Yes, absolutely. For one, certainly they never expected that this could possibly happen from the documents that they've been giving me, because otherwise they wouldn't have given them. But I've been able to make the information used on a national level in Venezuela.

This information and this investigation have affected the way that the Bolivarian revolution has proceeded. I don't mean to say that in any way to take credit, but it's true. Before we had this information, it was just a rumor that the U.S. was involved in the coup. The whole discourse now on the opposition being financed by Washington is a result of this investigation. It didn't exist before. And that has given Chávez the upper hand in pretty much everything in Venezuela. It has also attracted a lot of people who previously supported the opposition and don't anymore, because they don't want to support an opposition that's financed by Washington.

In the case of the United States, it's put them in a difficult position. This research has basically placed the NED's existence in jeopardy, period. It's an issue that Congress is discussing every day, or at least was last year. There have been a few hearings on it, but behind closed doors it's something that's talked about all the time. The NED has been freaking out, that's why they're trying to defend their interests desperately, and even USAID, everything's sort of in jeopardy. All this intervention into civil society has been exposed, and so, you know, they're freaking out.

Narco News: You said you don't think the U.S. government would have given you the documents if it knew what was going to happen. Does that mean it's getting harder for you to get documents?

Eva Golinger: Well, I got six documents from the CIA that were top secret, for the months involving the coup, and they were really sort of random. They were heavily censored. The CIA certainly would never give any type of information that they would think would actually be useful. Not so soon; it was just two and a half years after the coup when I got that. So obviously they thought, we'll give her this, but she won't be able to use it, she'll just be able to say that she got something from the CIA.

But in fact I was able to get a sufficient amount of information out of there. Those are the most important documents that I have, because they show complicity in the coup, and knowledge. They must not have realized either that they left that in, or

that I would actually be able to utilize it, to understand it, and put it into context, and make it public.

Even in the documents they send me today or yesterday, which they probably think I can't use at all, I'm finding information and it's useful. But it's not necessarily stuff that I'm going to call the press about tomorrow, like in the case of the CIA or the NED material. It's more sort of long-term analysis that will be useful for another book, or even just as historical background information or more evidence to accusations that we've already been making.

Narco News: Your work has been noticed a lot by the Venezuelan press. I also saw some nasty attacks on both you and Jeremy by Alex Boyd, who writes for VCrisis...

Eva Golinger: Oh, that... There have been some articles that are fairly ok; that aren't great, but don't consider me a bad person like the VCrisis guy, who thinks I'm some criminal. In general the Venezuelan opposition press thinks that I'm well intentioned, but I'm just confused. There was an article recently in Exceso, which is a very opposition magazine. I'm actually on the cover this month. It's not a favorable article by any means. It's also not completely unflattering... they could have gone to town if they wanted to, because there's so much crap about me out there. They sort of make fun of me - that's how they treat it, by making fun. No [one] does a serious analysis of the information.

I happened to see it because when I left Venezuela, in the first few days of the month, when the article had just come out. So, it was all over the airport, and it was a little uncomfortable because everyone was just staring at me. They're buying and looking at the magazine; I'm on the cover, and the title is "The Ugly American," "La americana fea." Which initially I took as, what are they talking about, because the picture wasn't that bad. [Laughs] But it's actually a saying that means, you know, the intrusive American.

It's ironic. One, because I'm also Venezuelan. But also because for the opposition I am an intrusive outsider who's exposing all of their wrongdoings, whereas for the rest of Venezuela, I'm more of an insider, someone on their side who is helping and participating, just like any of them, in the process of change.

Narco News: Are there any new issues or new questions that you're looking into now since the book came out?

Eva Golinger: I'm always looking at new information, and actualizing it, in the sense of bringing everything up to date. Whatever has been happening recently I try to get information on.

The plan for the next book is to be more focused on the military aspects - on U.S. military presence in the region, tying it into issues of Colombia, and looking at the infiltration issues with the Venezuelan military.

*The Chávez Code*, published by Editorial Jose Marti in Cuba, is currently available through the website [venezuelafoia.info](http://venezuelafoia.info), in both English and Spanish, as well as through Amazon.com. An international release of the English edition, by a U.S. publisher, is planned for the coming months.



---

## 2-day standoff ends between Japan and South Korea

The Asahi Shimbun

06/03/2005

<http://www.asahi.com/english/Herald-asahi/TKY200506030146.html>

In accordance with Title 17 U.S.C. Section 107, this material is distributed without profit to those who have expressed a prior interest in receiving the included information for research and educational purposes.

KITA-KYUSHU-A two-day high-seas standoff ended Thursday, thereby averting a diplomatic row, when the skipper of a South Korean trawler promised to pay 500,000 yen for encroaching in Japanese economic waters and fleeing with two Japan Coast Guard officers who had boarded the vessel earlier for an inspection.

The bizarre incident ended with patrol vessels of both countries lashed to the side of the fishing boat Sinpung just outside Japan's exclusive economic zone (EEZ).

The agreement was intended to stop the incident developing into a major diplomatic issue at a time of particularly strained relations between the two countries.

Later, the officers who boarded the vessel said they managed to enter the wheelhouse and stop the boat.

But then crew members charged them and roughly manhandled them, hurling them to the deck, they said.

During the negotiations aboard a South Korean maritime police vessel inside South Korea's EEZ and about 10 kilometers from where the trawler was first stopped, Japan Coast Guard officers were asked to provide proof the boat had been operating illegally.

Japanese officials maintained the on-board inspection was aimed at determining whether the fishing boat was indeed operating illegally.

Coast guard officials demanded that the skipper and the boat be handed over to Japanese custody. By putting up 500,000 yen, the skipper was allowed to leave with his trawler and 10 crew members.

The money will be forfeited if he refuses to submit to future coast guard questioning.

The skipper admitted to disobeying coast guard orders to stop, which is a violation of the fisheries law.

The boat was first spotted around 11:30 p.m. Tuesday by the coast guard patrol boat Tatsugumo, which ordered it to stop.

The boat was sighted off Tsushima island, Nagasaki Prefecture.

When two Japan Coast Guard officers boarded the boat for an inspection, the boat fled for South Korean waters with the two hapless officers.

The trawler made its bid for freedom while a rescue was under way for another coast guard officer who had fallen overboard while trying to board the boat.

According to United Nations Convention on the Law of the Sea, coast guard officers have the right to pursue and board fishing vessels until they enter their own territorial waters, which is 22 kilometers off the coast of the vessel's home country, or a third nation.

The trawler finally departed for its home port in the evening. (IHT/Asahi: June 3, 2005)



---

## The US Trade Deficit is Unsustainable

Bud Conrad 5/31/05

321gold.com

<http://www.321gold.com/editorials/conrad/conrad060205.html>

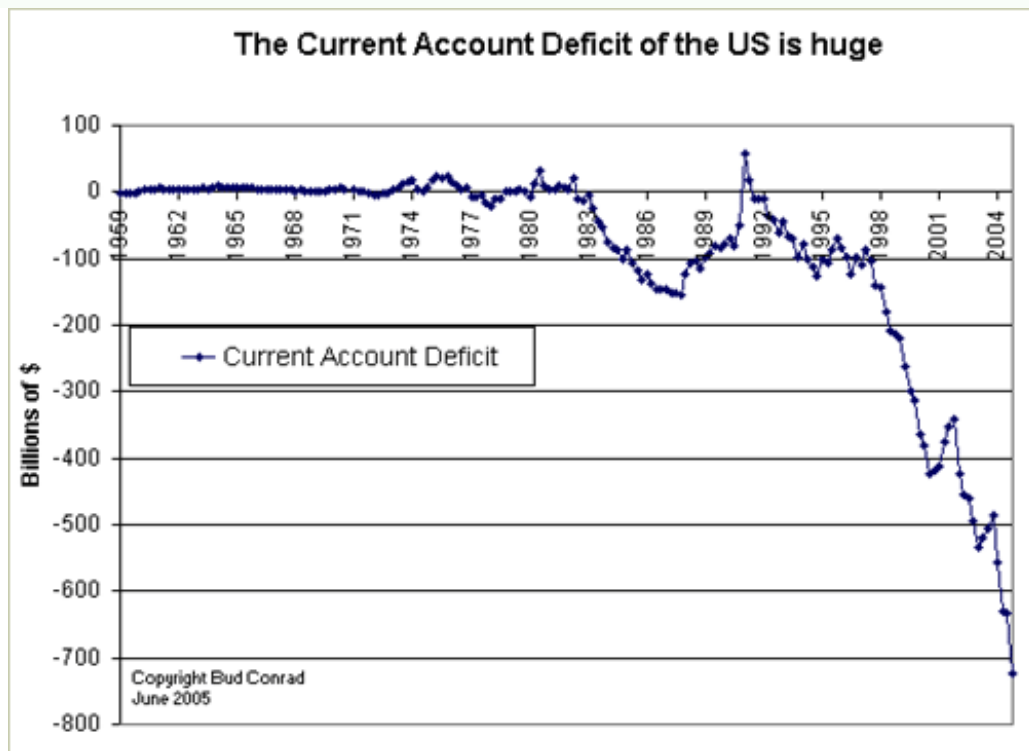
In accordance with Title 17 U.S.C. Section 107, this material is distributed without profit to those who have expressed a prior interest in receiving the included information for research and educational purposes.

### Introduction

The US has been borrowing from willing foreigners to maintain its lifestyle, even as we have become uncompetitive in world manufacturing markets. This article examines how big the US trade deficit is in comparison with other economies, and what this may mean for investment. First I simply show the size of the deficit, and then I show how dependent the US housing market and US government deficit spending is on re-investment by foreigners. I then examine the details of the situation, building on a speech given by ex-Secretary of the Treasury and now President of Harvard, Dr. Larry Summers. This analysis shows how dangerous the US trade balance is to the stability of the US and world economic systems.

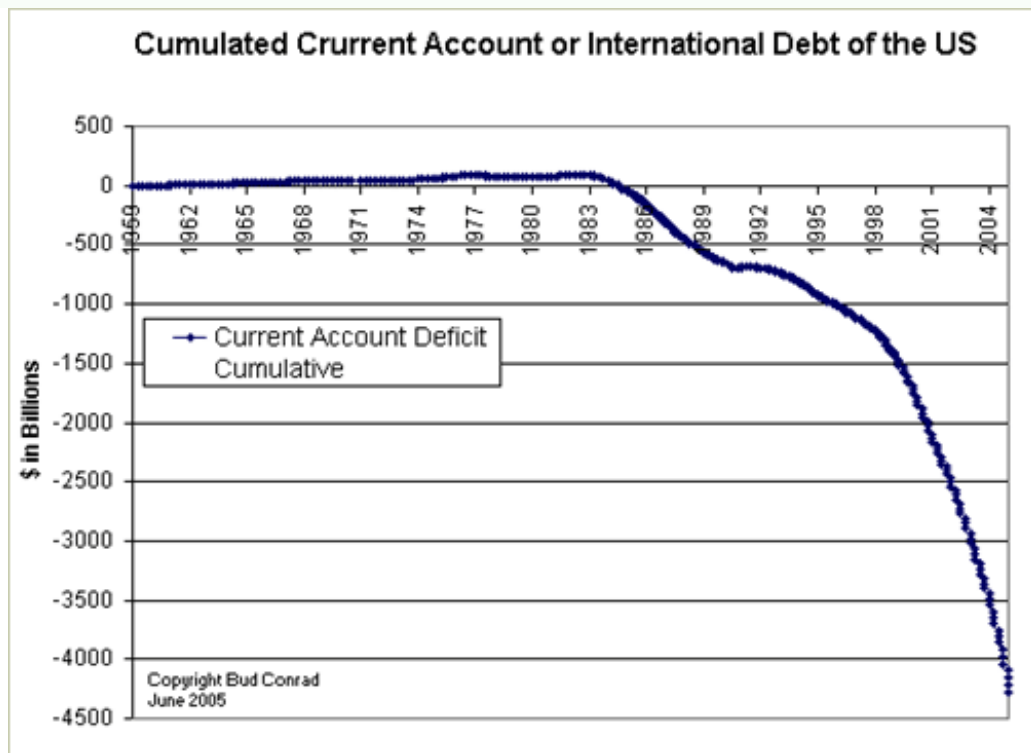
### The Trade Deficit of the US is at unsustainable levels

The trade deficit is the difference between how much we buy and how much we sell to foreigners. Economists like to use a more precise measure of the net amount of money that flows across a country's border, so they add in the net returns on investments as well. The investment flows are much smaller than the trade differences. The combination of investment returns and the trade deficit is called the current account (CA). I will show current account data below but it can be thought of as very similar to the trade deficit. How big is the current account deficit? The chart below shows the history since 1959:



The US is importing \$700B more in goods and services than it sells abroad. The shape of this change is not one of a cycle that gets pushed to one side and then swings back to the other. It is more like a cliff. Our situation is unprecedented. No G7 country has ever had as big a deficit. Axel Merk, who runs a foreign currency fund ([www.merkinvestments.com](http://www.merkinvestments.com)) points out that the US CA deficit could reach \$900B in 2006. He references the Bank of International Settlements for this estimate. To see if this is reasonable, I calculate what would happen if crude oil went to \$100/ bbl. We import  $\frac{3}{4}$  of our 20M bbl per day usage. That calculates to  $(20 \times \frac{3}{4} \times 365 =)$  5 billion barrels per year. At \$100/ bbl this bill would be \$500B. All other cars, computers and clothes would be in addition. If the dollar's purchasing price dropped as the quantities of goods stayed the same, the deficit would also rise. A \$900B deficit is possible.

The situation is even worse when looking not just at what happened each year, but at the accumulated deficit of the US. This accumulated deficit over time measures how big the US indebtedness has become. The chart below, which is even more dramatic, shows that we have accumulated a \$4 trillion debt.



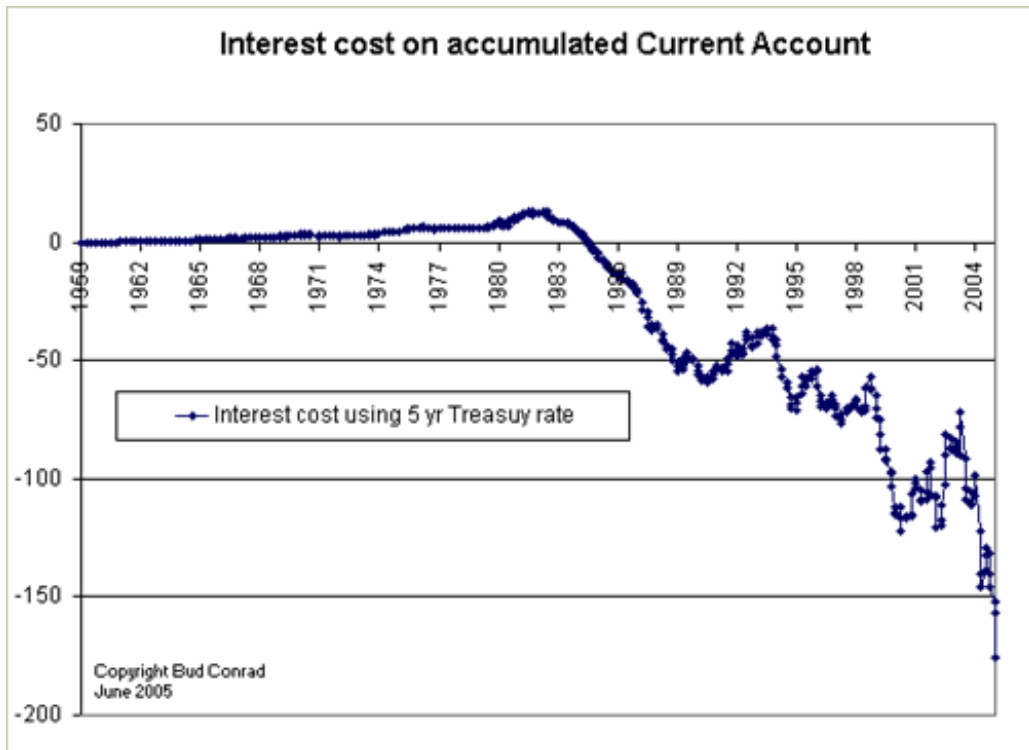
This astounding amount is 40% of GDP and shows no signs of slowing. To put this \$4 trillion in perspective, the comparable base of what the whole country is worth is only \$48.5 trillion. This total value of the nation is the sum of all real estate, all equities and such personal possessions as cars and furniture. So we are approaching having given away 10% of our net worth as collateral for importing the oil, cars and computers we use for our life style.

The chart below shows the size of flows to and from individual nations. The US stands out with the biggest deficit by far.



The problem of big debt for a country the is same as for an individual: they have to pay the growing interest to service the debt. A rough calculation of how big that

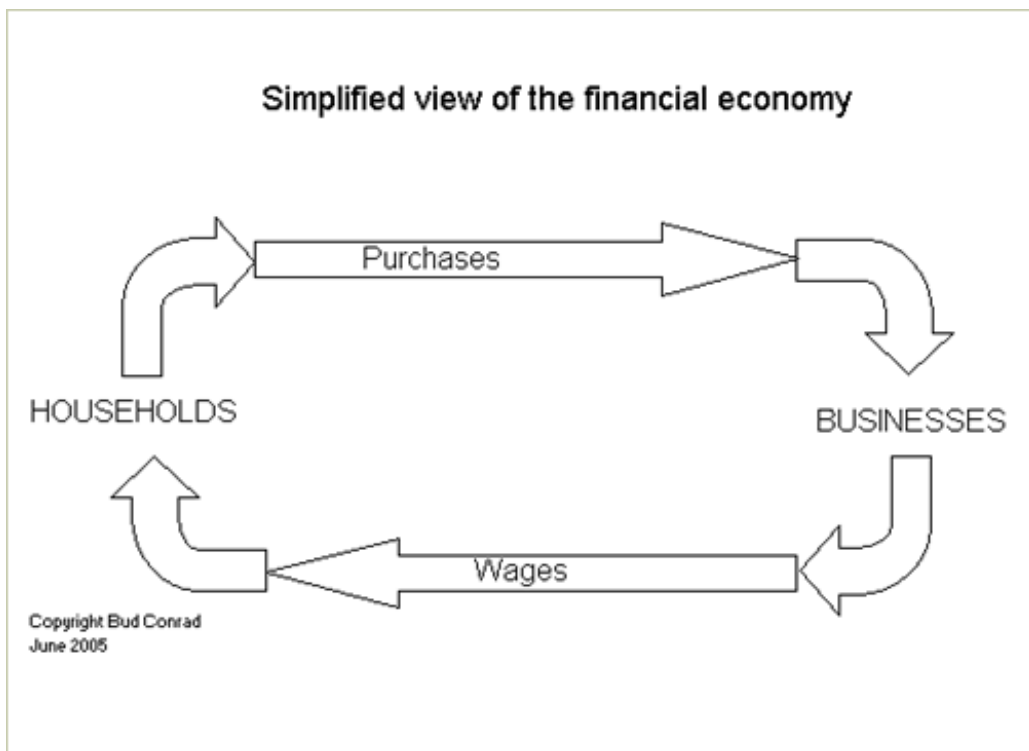
interest is on the outstanding debt is shown below by multiplying the amount outstanding by the interest rate of the 5-year note in the chart below:



All these pictures show that the deficit is big and growing.

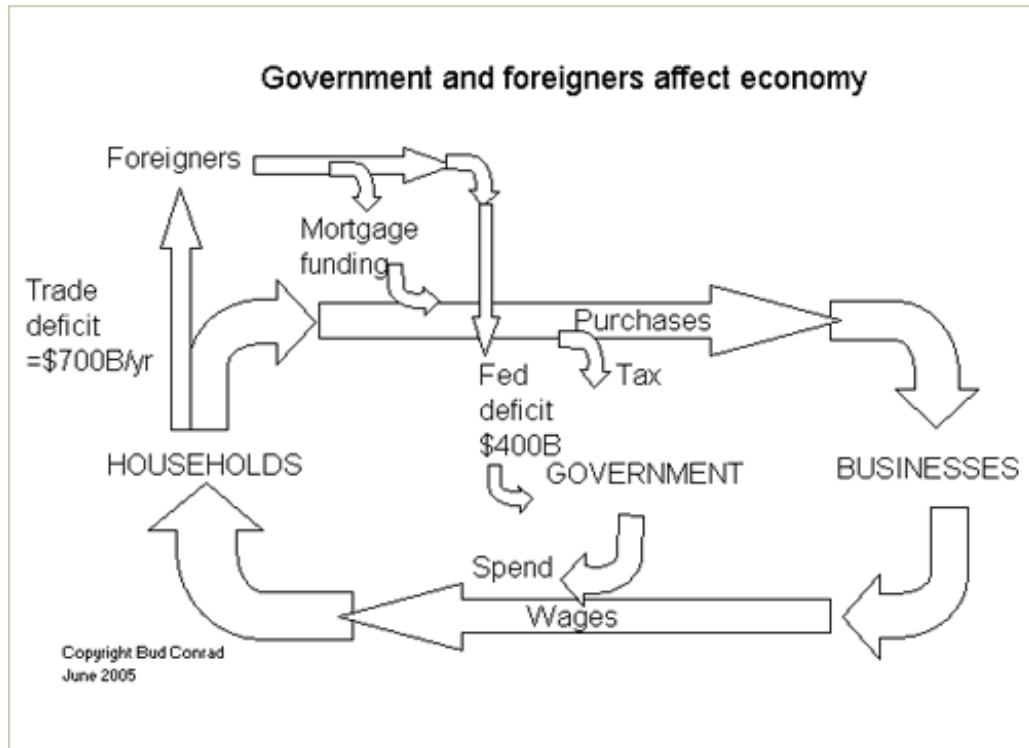
**The Trade Deficit links to the US housing bubble and government deficit**

The most basic view of the economy is diagramed below. Households earn the wages they spend on the goods and services from businesses:



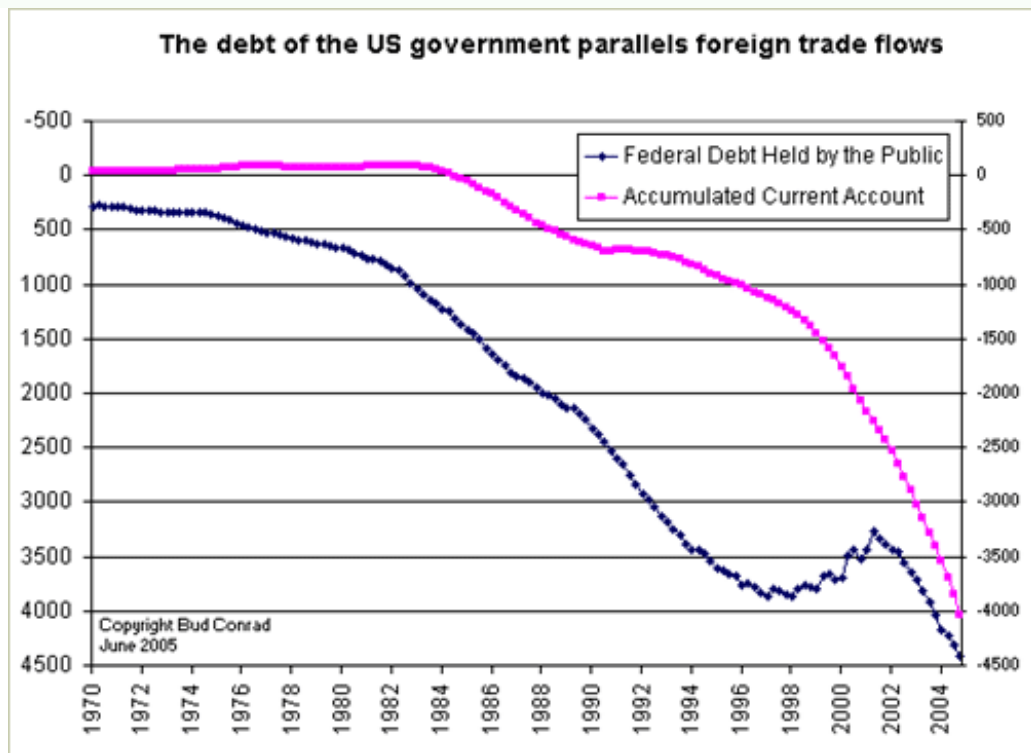
The following chart adds that consumers spend a portion purchasing foreign goods. The foreigners then recycle the dollars they collect from this trade into the US government debt by buying Treasuries and into Agency debt of Government

Sponsored Enterprises like Fannie Mae, which then provide money for housing.

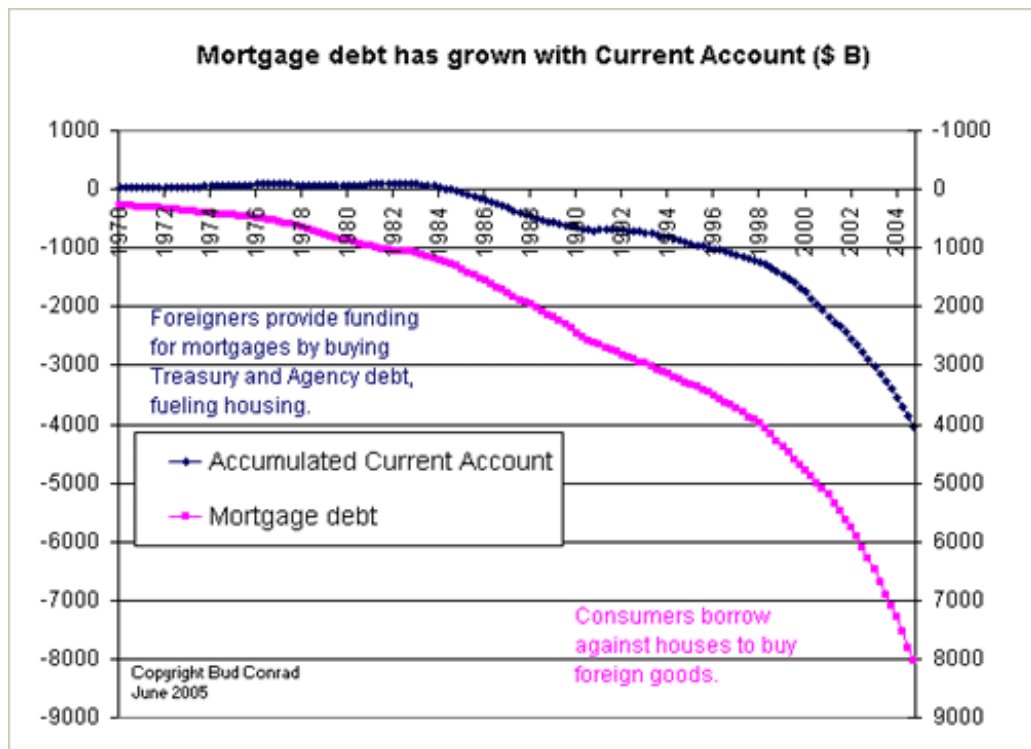


Foreigners have funded our housing boom and provided enough credit that the growing federal deficits have not driven interest rates up. Much is simplified out of the above explanation, but the value is that we can see the biggest and most important money flows.

The US credit market matches the amount borrowed and lent. The accumulated foreign contribution of \$4 trillion of lending (investment) has provided the credit for the borrowing by the US government whose debt held by the public is now similar in size to the accumulated foreign loans to the US. The chart below shows the size of Federal government debt and the foreign accumulated current account debt to point out that foreigners are funding credit at comparable levels:



A comparison of Mortgage Debt and Current Account shows similar growth rates:



If foreigners were to look for other investments, such as gold, or to cash in their current investments by buying assets like stocks or real estate, there would be a big increase in the amount of dollars in the US borders, and a big increase in US prices. The implication of impending inflation is that investors would see the risk, and expect higher interest rates to cover their loss to inflation.

#### **An ex-Secretary of Treasury views the deficit as dangerous**

Larry Summers (see web for a bio - [www.president.harvard.edu/biography](http://www.president.harvard.edu/biography)) spoke at a meeting of the Stanford Institute of Economic Policy Research on the problems of

the US current account deficit. He is analytic and convincing. In summary, he painted a very bleak picture as to how serious the situation is. He used the Mutual Assured Damage analogy of the cold war, as a model for countries holding our debt but not wanting to lose by cashing it in and forcing its value down. He even suggested that foreign debt holders might get the rip-them-off strategy of letting the dollar drop so much that our debts to them evaporate. He implied that there could be a serious calamity in financial markets. He concluded with "I don't know the answer" to fixing the problem. I asked him to explain why interest rates were so low in the face of the situation. He said the 10-year note should be at 5.5% at least. He had no economic rationale for the low rate, but proffered that maybe investors who had been betting on the rate rise had decided to "throw in the towel" much like NASDAQ shorts did at 3,000 on the way up to 5,000. By buying back short positions they may be contributing to the low rate.

The current account deficit is now unsustainable at 6% of GDP. Since imports are bigger than exports, if they grow at a similar rate, the deficit will grow. The accumulation of debt means that we have to pay increasing interest on the debt making the balance worse. Historically, as the US GDP grows 1%, the current account deficit has grown 2%. But foreigners grow their CA by only 1% for a 1% of GDP growth. The conclusion is that the CA will get worse.

The 6 measures to identify if the CA is a problem:

1. Is it too big? At 6% of GDP it is bigger than the level that brought Argentina into collapse. Mexico got to 8% before its last collapse. The US absorbs 75% of the world's export surplus. A G7 country has never had such a big deficit before. The conclusion is that 6% is already too big.
2. Is it rising? Yes, suggested by the measures mentioned above.
3. What is the comparative rate of National Investment compared to the National Saving rate? If a country is making investment for future production and has a strong savings rate, it is in a stronger position. The US has the opposite with big government deficit, and little savings.
4. Does the composition of the deficit indicate weakness? If a country is running a CA deficit, by importing the means of manufacturing for example, it can be expected that investment will improve output, and thus be more sustainable than if the imports are for consumption. A measure of composition is whether the goods are traded goods, or not. The composition of the CA for the US is for consumer products, and therefore more dangerous.
5. Where are wealthy locals moving their money? The US is expanding its buying of foreign stocks. We are making foreign direct investment outside the country. The net flow out of investment adds to the view that US decision-makers do not find good value in US.
6. Is the capital flow to the US coming from private investors, who tend to be more concerned about returns than politics, or more from central banks, who may have other reasons than just profits? The US was getting about 2/3 of its investment from Central Banks, and this could be a weak position.

By all 6 measures the CA deficit is judged to be a serious risk to the US economy. There are 3 counter arguments that the situation may not be serious:

1. We are the Reserve Currency. The large liquid market for US Treasuries has given us leverage and speed. It looks like local stability, but if there is a big shift, the speed could lead to explosive results. The global capital market may not give that much edge to the dollar.
2. "We will rip the foreigners off." We will depreciate the dollar enough that they will be left with less than they paid for. In fact, this has been happening. The foreign debt to GDP (nominal) ratio hasn't been expanding much. The weaker dollar means that the purchasing power of the accumulated foreign debt is not growing so rapidly. The argument has short-term merit, but the obvious flaw is that foreigners can see what is happening and may not allow it to continue. An expectation of a weaker dollar would drive the dollar down even more.

3. Bretton Woods II Co-dependency. The term refers to the regime of using the dollar, which is no longer based on gold, to manage the world economic system. The cold war term of Mutually Assured Damage can be applied to the very big holders of our debt. The foreign country that accepts US dollars in trade transactions and re-invests them in US Treasuries may not be so concerned about the dollar drifting lower, if they believe that keeping the dollar strong will benefit their own economy. We have the odd policy of asking China to raise the value of their currency, leaving them holding claims on us of decreasing value.

There will be substantial adjustments ahead:

1. The most similar historical time was the mid-1980s when the CA peaked at 3.5% of GDP. The fall of the dollar after 1985 caused the CA to come back in line.
2. The 1987 crash might have had some input from these unstable antecedents.
3. Japan had several parallels in its situation in the late 1980s with seemingly unending growth. China today looks like Japan of the 70s and 80s.

The trade imbalance is a substantial problem not only in the US, but globally. US purchases of world goods are necessary for other countries' economic growth. If the US fixes its CA deficit, then the rest of the world will have excess capacity. So the US fix is a problem for the world.

The relationships of the US savings rate, CA, and investment rate, leave us only limited options. The US investment (borrowing, including the government) has to be funded out of US households' savings, or from foreigners as investment of their trade-won dollars. For all these things to work, as the US cuts its CA deficit, foreign countries must stimulate their own demand to provide markets for their output. There is no simple path here. With US consumers not saving much at all, the funding of credits must come from foreigners. Asian consumers have been held back by lack of long-term mortgage lending and retail constraints. Commensurately, currency adjustment of the weaker dollar should occur against Asian currencies more than European. The economic link of the CA deficits and the budget deficit, is that a smaller fiscal deficit would help improve the CA deficit.

Summers' concluding comment was to say "I don't know the answer." His arrival at such a dire evaluation, suggests reason to be cautious about the economy and the value of the dollar for the future.

### **My Conclusion**

I think the US trade deficit will lead to a weaker dollar. That means alternatives to US-dollar-denominated assets must be an important part of a portfolio. The US avoided a serious recession in 2001 by letting the consumer expand his spending by borrowing. We now have more debt than ever, not only internationally as described above, but also for government, and for mortgages. If foreigners were to consider other options for holding these dollars, there could be a glut of dollars in the world that would drive the exchange rate downward and prices in the US upward. If inflation rises, US interest rates could rise, and many parts of the economy could turn down, like housing, stocks and consumer spending. Because of the size of the amounts involved, and the speed of today's currency and interest rate markets, the shift could move very fast in a downward spiral.



---

*["We cannot let our enemies strike first," President Bush declared...] Every term in this quotation rattles with unintended irony. The phrase "President Bush" could curdle a glass of milk from ten miles away - he was never elected, nor does he actually run the country. And his conduct in that office is so vulgar, cynical, and disastrous that*

*the phrase would be perverse even if he was legitimately elected and could say "nuclear."*

*Then there's the idea of "our enemies." This presupposes a common national interest. We have none, and we may be better off without it. The problem is the ongoing pretense that Gutbucket Mississippi and San Francisco are gathered round the barbecue singing "United We Stand." Your enemies are not mine, thank you, and I want as few as possible.*

*If one doesn't want to have enemies, one ought to learn a little bit of as many languages as possible, read about other cultures, and stay away from brutal people whose childhoods were so poisoned by violence that they can hardly stop circulating it. Despite his fake Texan identity (and despite the Yale education that belies it), this guy can't even speak Spanish -- let alone say a respectful phrase or two in the non-Indo-European tongues he could really use, like Arabic, Farsi, and maybe even a little Chinese.*

*The main idea of "global strike" is to squander the agonizing lessons of the past fifty years and put everybody's family in as much danger as current conditions will permit. Now, what was the old metaphor for "first strike"? Well, it was "lightning war": blitzkrieg. -JAH]*

## **Not Just A Last Resort? A Global Strike Plan, With a Nuclear Option**

By William Arkin  
Washington Post  
Sunday, May 15, 2005

[http://www.washingtonpost.com/wp-dyn/content/article/2005/05/14/AR2005051400071\\_pf.html](http://www.washingtonpost.com/wp-dyn/content/article/2005/05/14/AR2005051400071_pf.html)

In accordance with Title 17 U.S.C. Section 107, this material is distributed without profit to those who have expressed a prior interest in receiving the included information for research and educational purposes.

Early last summer, Defense Secretary Donald H. Rumsfeld approved a top secret "Interim Global Strike Alert Order" directing the military to assume and maintain readiness to attack hostile countries that are developing weapons of mass destruction, specifically Iran and North Korea.

Two months later, Lt. Gen. Bruce Carlson, commander of the 8th Air Force, told a reporter that his fleet of B-2 and B-52 bombers had changed its way of operating so that it could be ready to carry out such missions. "We're now at the point where we are essentially on alert," Carlson said in an interview with the Shreveport (La.) Times. "We have the capacity to plan and execute global strikes." Carlson said his forces were the U.S. Strategic Command's "focal point for global strike" and could execute an attack "in half a day or less."

In the secret world of military planning, global strike has become the term of art to describe a specific preemptive attack. When military officials refer to global strike, they stress its conventional elements. Surprisingly, however, global strike also includes a nuclear option, which runs counter to traditional U.S. notions about the defensive role of nuclear weapons.

The official U.S. position on the use of nuclear weapons has not changed. Since the end of the Cold War, the United States has taken steps to de-emphasize the importance of its nuclear arsenal. The Bush administration has said it remains committed to reducing our nuclear stockpile while keeping a credible deterrent against other nuclear powers. Administration and military officials have stressed this

continuity in testimony over the past several years before various congressional committees.

But a confluence of events, beginning with the Sept. 11, 2001 attacks and the president's forthright commitment to the idea of preemptive action to prevent future attacks, has set in motion a process that has led to a fundamental change in how the U.S. military might respond to certain possible threats. Understanding how we got to this point, and what it might mean for U.S. policy, is particularly important now -- with the renewed focus last week on Iran's nuclear intentions and on speculation that North Korea is ready to conduct its first test of a nuclear weapon.

Global strike has become one of the core missions for the Omaha-based Strategic Command, or Stratcom. Once, Stratcom oversaw only the nation's nuclear forces; now it has responsibility for overseeing a global strike plan with both conventional and nuclear options. President Bush spelled out the definition of "full-spectrum" global strike in a January 2003 classified directive, describing it as "a capability to deliver rapid, extended range, precision kinetic (nuclear and conventional) and non-kinetic (elements of space and information operations) effects in support of theater and national objectives."

This blurring of the nuclear/conventional line, wittingly or unwittingly, could heighten the risk that the nuclear option will be used. Exhibit A may be the Stratcom contingency plan for dealing with "imminent" threats from countries such as North Korea or Iran, formally known as CONPLAN 8022-02.

CONPLAN 8022 is different from other war plans in that it posits a small-scale operation and no "boots on the ground." The typical war plan encompasses an amalgam of forces -- air, ground, sea -- and takes into account the logistics and political dimensions needed to sustain those forces in protracted operations. All these elements generally require significant lead time to be effective. (Existing Pentagon war plans, developed for specific regions or "theaters," are essentially defensive responses to invasions or attacks. The global strike plan is offensive, triggered by the perception of an imminent threat and carried out by presidential order.)

CONPLAN 8022 anticipates two different scenarios. The first is a response to a specific and imminent nuclear threat, say in North Korea. A quick-reaction, highly choreographed strike would combine pinpoint bombing with electronic warfare and cyberattacks to disable a North Korean response, with commandos operating deep in enemy territory, perhaps even to take possession of the nuclear device.

The second scenario involves a more generic attack on an adversary's WMD infrastructure. Assume, for argument's sake, that Iran announces it is mounting a crash program to build a nuclear weapon. A multidimensional bombing (kinetic) and cyberwarfare (non-kinetic) attack might seek to destroy Iran's program, and special forces would be deployed to disable or isolate underground facilities.

By employing all of the tricks in the U.S. arsenal to immobilize an enemy country -- turning off the electricity, jamming and spoofing radars and communications, penetrating computer networks and garbling electronic commands -- global strike magnifies the impact of bombing by eliminating the need to physically destroy targets that have been disabled by other means.

The inclusion, therefore, of a nuclear weapons option in CONPLAN 8022 -- a specially configured earth-penetrating bomb to destroy deeply buried facilities, if any exist -- is particularly disconcerting. The global strike plan holds the nuclear option in reserve if intelligence suggests an "imminent" launch of an enemy nuclear strike on the United States or if there is a need to destroy hard-to-reach targets.

It is difficult to imagine a U.S. president ordering a nuclear attack on Iran or North

Korea under any circumstance. Yet as global strike contingency planning has moved forward, so has the nuclear option.

Global strike finds its origins in pre-Bush administration Air Force thinking about a way to harness American precision and stealth to "kick down the door" of defended territory, making it easier for (perhaps even avoiding the need for) follow-on ground operations.

The events of 9/11 shifted the focus of planning. There was no war plan for Afghanistan on the shelf, not even a generic one. In Afghanistan, the synergy of conventional bombing and special operations surprised everyone. But most important, weapons of mass destruction became the American government focus. It is not surprising, then, that barely three months after that earth-shattering event, the Pentagon's quadrennial Nuclear Posture Review assigned the military and Stratcom the task of providing greater flexibility in nuclear attack options against Iraq, Iran, North Korea, Libya, Syria and China.

The Air Force's global strike concept was taken over by Stratcom and made into something new. This was partly in response to the realization that the military had no plans for certain situations. The possibility that some nations would acquire the ability to attack the United States directly with a WMD, for example, had clearly fallen between the command structure's cracks. For example, the Pacific Command in Hawaii had loads of war plans on its shelf to respond to a North Korean attack on South Korea, including some with nuclear options. But if North Korea attacked the United States directly -- or, more to the point, if the U.S. intelligence network detected evidence of preparations for such an attack, Pacific Command didn't have a war plan in place.

In May 2002, Rumsfeld issued an updated Defense Planning Guidance that directed the military to develop an ability to undertake "unwarned strikes . . . [to] swiftly defeat from a position of forward deterrence." The post-9/11 National Security Strategy, published in September 2002, codified preemption, stating that the United States must be prepared to stop rogue states and their terrorist clients before they are able to threaten or use weapons of mass destruction against the United States and our allies."

"We cannot let our enemies strike first," President Bush declared in the National Security Strategy document.

Stratcom established an interim global strike division to turn the new preemption policy into an operational reality. In December 2002, Adm. James O. Ellis Jr., then Stratcom's head, told an Omaha business group that his command had been charged with developing the capability to strike anywhere in the world within minutes of detecting a target.

Ellis posed the following question to his audience: "If you can find that time-critical, key terrorist target or that weapons-of-mass-destruction stockpile, and you have minutes rather than hours or days to deal with it, how do you reach out and negate that threat to our nation half a world away?"

CONPLAN 8022-02 was completed in November 2003, putting in place for the first time a preemptive and offensive strike capability against Iran and North Korea. In January 2004, Ellis certified Stratcom's readiness for global strike to the defense secretary and the president.

At Ellis's retirement ceremony in July, Gen. Richard B. Myers, chairman of the Joint Chiefs of Staff, told an Omaha audience that "the president charged you to 'be ready to strike at any moment's notice in any dark corner of the world' [and] that's exactly what you've done."

As U.S. military forces have gotten bogged down in Afghanistan and Iraq, the attractiveness of global strike planning has increased in the minds of many in the military. Stratcom planners, recognizing that U.S. ground forces are already overcommitted, say that global strike must be able to be implemented "without resort to large numbers of general purpose forces."

When one combines the doctrine of preemption with a "homeland security" aesthetic that concludes that only hyper-vigilance and readiness stand in the way of another 9/11, it is pretty clear how global strike ended up where it is. The 9/11 attacks caught the country unaware and the natural reaction of contingency planners is to try to eliminate surprise in the future. The Nuclear Posture Review and Rumsfeld's classified Defense Planning Guidance both demanded more flexible nuclear options.

Global strike thinkers may believe that they have found a way to keep the nuclear genie in the bottle; but they are also having to cater to a belief on the part of those in government's inner circle who have convinced themselves that the gravity of the threats demands that the United States not engage in any protracted debate, that it prepare for the worst and hope for the best.

Though the official Washington mantra has always been "we don't discuss war plans," here is a real life predicament that cries out for debate: In classic terms, military strength and contingency planning can dissuade an attacker from mounting hostile actions by either threatening punishment or demonstrating through preparedness that an attacker's objectives could not possibly be achieved. The existence of a nuclear capability, and a secure retaliatory force, moreover, could help to deter an attack -- that is, if the threat is credible in the mind of the adversary.

But the global strike contingency plan cannot be a credible threat if it is not publicly known. And though CONPLAN 8022 suggests a clean, short-duration strike intended to protect American security, a preemptive surprise attack (let alone one involving a nuclear weapon option) would unleash a multitude of additional and unanticipated consequences. So, on both counts, why aren't we talking about it?

Author's e-mail: [warkin@igc.org](mailto:warkin@igc.org)

*William M. Arkin, who writes frequently about military affairs, is the author of "Code Names: Deciphering U.S. Military Plans, Programs and Operations in the 9/11 World" (Steerforth).*



•  [email this](#)

•  **Printer Friendly Page**

FROM email:

Your name:

TO email: