Exposed! CFR Bankers Plan for Financial Crash

by Richard Freeman

On July 12-13, while public media were assuring the credulous public of a "soft landing" for the U.S. economy, the New York Council on Foreign Relations (CFR) held a conference at its exclusive mansion-headquarters on the East Side of Manhattan, entitled "The Next Financial Crisis: Warning Signs, Damage Control and Impact." For two days, several speakers told a high-powered audience of 250 people, comprised largely of bankers, investors, corporation officials, and policymakers, mostly from the United States, but also from Europe, of the possibility that the U.S. stock market, and potentially the world financial system, would melt down.

The conference occurred under the auspices of the CFR's "Financial Vulnerabilities Project," which the CFR established in 1999 to systematically look at such crises. Wall Street investment banker Roger Kubarych is the director of the project.

It is with a high degree of perverse irony, that these very policymakers who have put out, month after month, the monotonous story praising the soundness of the world financial system, and the abundant growth of the U.S. economy, are debating among themselves the possibility and deeper implications of the financial system shattering.

The conference featured discussion of the startling outcomes of a major event that the CFR Project had undertaken on Jan. 22: an eight-hour, war-game simulation of the simultaneous breakdown of major financial markets around the world. The simulation covered a period that would have unfolded over July 2-17, 2000.

What had been simulated, was a policy of pumping huge amounts of liquidity by the Federal Reserve, both through public sources and also through secret channels, to "keep the main markets open." The simulation was conducted such that "all the public would see, is that the Fed volume of loans to banks had gone up." Further, and darkly revealing, the CFR, according to its own testimony, the simulation began with a coup against the President of the United States.

While concentrating on the theme of financial meltdown of the "globalized" economy, there quickly emerged at the conference a dominant second theme for dealing with the crisis: the enunciated policy that many tens of millions of people in the Third World should be caused to die, by denying them any treatment for AIDS. Game-theorist Peter Schwartz, one of the more important figures at the conference, stated point-blank, "Those who have AIDS in Africa should die as quickly as possible. They should not be kept alive." Schwartz's anti-human game-theory played a major role in this CFR conference, and as it does in the Financial Vulnerabilities Project. Schwartz made no attempt to conceal his policy of genocide. As the financial crisis deepens, this is exactly the policy that the CFR is bringing to the fore.

The conference also presented an insight into the CFR itself as an institution, and its decision-making and policy-formulating processes. The CFR dictates significant elements of policy in America, including for the Democratic and Republican parties and official Washington. The British and American financier oligarchy created it in 1921 expressly for that purpose. But at the conference, while accurately identifying some aspects of the financial crisis, the CFR could offer no competent solution. Further, during the conference, the CFR increasingly subjected its members to the systems-analysis influence of game-theory and artificial intelligence. It was evident that the thinking, and policy-decision functions of the CFR have sharply deteriorated, relative to what it was 20 years ago—and they are supposed to be the top policymakers in the United States.

The treatment of the issue of AIDS in Africa was a singular "marker." It revealed a policy outlook of the London-Wall Street "leadership" in the last stages of a systemic breakdown.

The deans of the Eastern Establishment are worried—although they don't let on publicly. They met at the New York headquarters of the Council on Foreign Relations to discuss "The Next Financial Crisis: Warning Signs, Damage Control and Impact," and to plan scenarios to make sure that they *stay on top when the meltdown occurs.*

The argument in favor of a new Black Death, given to this correspondent by Schwartz, are presented in the accompanying box.

The Meltdown Simulation

The July 12-13 conference was the third of a series of events originating in the CFR's Financial Vulnerabilities Project. Public and side discussions made clear that the events stemming from the misnamed "Asian financial crisis" of 1997-98, the Sept. 17, 1998 declaration by the Russian government of a moratorium on payment on its GKO Treasury debt, to the Sept. 23, 1998 blowout of the Long Term Capital Management hedge fund, which carried more than $1.25 trillion in derivatives bets, and subsequent events, terrified people in CFR circles. Fearing another major crisis, they quickly put together the Financial Vulnerabilities Project.

On Jan. 22, 2000, the CFR Project held its second big event: a scenario of a global financial meltdown, run as a war-game simulation at its Manhattan headquarters.

For the simulation, the CFR conscripted 75 people, including bankers, former Treasury Secretaries, and former State Department officials. Participants were divided into four teams, sent into four rooms, with the ability to communicate with each other and with a command headquarters through the computers. The four teams covered 1) monetary-financial, which dealt with the functions of the Federal Reserve Board of Governors; 2) economic and trade, which dealt with the functions of the U.S. Treasury Department; 3) regulatory matters; and 4) national security—nut case and former CIA director James Woolsey played the role of Secretary of Defense.

The game-players were hit with breakdowns in several markets, which increased in severity, and in some ways interacted, during the simulation. The market assumptions included: the Dow Jones Average Industrial Average falling by stages, from 10,000 to 7,100; the price of oil shooting up to $36 per barrel; the dollar plummeting against both the euro and the yen; the affiliate of a large British insurance company that was a big player in the equity derivatives market getting into trouble, causing panic in the derivatives market; Ukraine defaulting on payments to Russian oil companies, which increased the possibility of a Russia-Ukraine confrontation; and so on.

The simulation confirms that, despite media prattling, the highest levels of the financier oligarchy are making preparations for something that may be quite different than unlimited prosperity.

The CFR has not yet written up the outcome of the simulation, but one conference panel was a "report-back" by participants in the simulation meltdown. Three underlying assumptions of great significance, other than those which are strictly market-based, were divulged:

A Coup against the President

First, James Jones—a former U.S. Representative from Oklahoma, U.S. Ambassador to Mexico (1993-97), and now a lawyer at Manatt, Phelps & Phillips (the firm of former Democratic National Committee chairman Chuck Manatt)—played the role of National Security Adviser during the simu-

Killing Off Africa

At the conference, Peter Schwartz sounded a call for the murder of tens of millions of people in Africa. Schwartz directed two of the conference's sessions on "Scenario Planning and Simulation," and the war-game simulation chapter of his recent book, *The Art of the Long View,* had been used on Jan. 22 to run the New York Council on Foreign Relations' simulation of a financial meltdown. Schwartz was a director of the intelligence-linked Scenario Planning Department of Royal Dutch Shell, a key institution of the British oligarchy. He is the founder of *Wired* magazine and the founder and current head of the Global Business Network (GBN), both of which are at the forefront of the New Age-New Economy movement.

On July 13, Schwartz had the following exchange with *EIR:*

EIR: "You stated yesterday that we should not keep alive those who have AIDS in Africa. You are writing off part of that continent's population."

Schwartz: "In 1986, I did a study on this for AT&T, Royal Dutch Shell, and Volvo. We concluded that people who have AIDS in Africa should not be kept alive; they spread the disease. It is better they should die quickly."

EIR: "Why did you do the study?"

Schwartz: "Oh—no reason, it was just an intellectual study."

EIR: "Why not have those who have AIDS live in decent places where they will not transmit the disease—"

Schwartz: "Concentration camps!" [This is exactly what the Hollywood mafia and death lobby lied that Lyndon LaRouche was proposing when his movement put Proposition 64, for a program to fight AIDS and save lives, on the California ballot in 1986.]

EIR: "I'm talking about places where people would live in good housing, with special diets that give them 50% higher protein intake—"

Schwartz: "Concentration camps!"

EIR: "Concentration camps are places where people were worked to death, and then gassed."

Schwartz: "Oh, well. Well, the bubonic plague was very good: It killed people right away."

At this point, Robert Hormats, walking by, was stopped by Schwartz. Hormats was Assistant Secretary of State for Economic Affairs in the Carter Administration, and is now vice chairman of the International Division of Goldman Sachs, and very important in the Gore campaign. Schwartz buttonholed Hormats to tell him what he had been saying.

Hormats: "That's very interesting."

After Schwartz repeated to Hormats his argument for a massive AIDS die-off, Hormats concurred: "That is just natural selection at work. That's what we did with tuberculosis."

Schwartz to Hormats: "You know one of the people I work with, Joel Hyatt, is the top fundraiser for the DNC [Democratic National Committee]."

Hormats: "I didn't know that he's the top fundraiser."

Schwartz: "Yes, he's the top fundraiser for the DNC. He is the co-author with me of the book *The Long Boom*."

lation. On July 12, Jones reported: "We assumed that the President of the United States was incapacitated. We assumed that either Clinton was depressed because he was denied his favorite part-time occupation—and I don't mean golf—or because Ronald Reagan was yearning for his old Hollywood movies. But we assumed the President was incapacitated. We had to decide whether to take powers from the President." That is, the CFR simulation started with a coup d'état against the U.S. President.

Second, a major objective of the exercise was to bail out the financial markets. According to an article in the March 10 issue of *Euromoney* magazine, written by an eyewitness reporter during the simulation, two of the largest mutual funds in America went to the Securities and Exchange Commission saying that they were experiencing redemption rates that could threaten their firms. The article reported, "They need an injection of cash to meet the payments without having to dump their portfolio on the market at fire-sale rates. . . . The regulators [a simulation team] approached blue-chip J.P. Morgan and discussed the Fed secretly guaranteeing a huge line of credit to the two funds. Morgan would take excess collateral, but it wouldn't be taking the credit risk of the mutual fund companies themselves. That would be borne by the Fed. Fed Chairman [Alan] Greenspan is uncomfortable, but agrees to the deal. 'All the public will see,' says one regulator reassuringly, 'is that the Fed's volume of loans to banks has gone up.' "

Such secret operations are exactly what Lyndon LaRouche and *EIR* have said that the Fed is doing now. Furthermore, former World Bank Managing Director and Treasurer Jessica Einhorn, who played vice-chairman of the Fed during the simulation, reported at the conference that, in the simulation, "We kept the main markets open, and let other things go. We lowered rates and put in liquidity. The main thing was to create the perception of confidence."

Third, the simulation used Schwartz's book *The Art of the Long View,* particularly its last chapter, which is a formulation of game-theory and war-games in the context of the New Age and New Economy. This is particularly important, as game-theory was being applied specifically against the institution of the CFR itself.

Before we look at how game-theory, as an instrument to destroy the mind's cognitive capacities, and induce a controllable behavior, was developed in corporate and institutional settings by Schwartz, we look at the first session of the conference, to locate the wider view of the financial-economic discussion.

Setting a Breakdown into Motion

The first session of the July 12-13 conference situated elements that could help set a financial breakdown into motion. It featured Henry Kaufman, president since 1988 of Henry Kaufman & Co., and before that with Salomon Brothers investment bank, who has warned constantly about high U.S. debt levels. (Kubarych, the director of the "Financial Vulnerabilities Project," has been Kaufman's business partner for a dozen years, and it is likely that, through Kubarych, Kaufman had a lot to do with the CFR conference.) Kaufman stated, "Contagion can spread quickly through the financial system. Today we have far greater repercussions which happen quickly, as we saw in [crises] in 1987, '94, and '98." He added that the financial markets have completely changed, and "a bank is no longer a bank, a securities firm is no longer a securities firm." Hannes Androsch, Austria's former Finance Minister (1970-81), and Vice Chancellor in 1976 under Bruno Kreisky, was on the same panel. While Androsch defended liberalization of the financial and labor markets in Europe, he did say that international money markets need to be "tightly regulated." Instead of recognizing the need for such regulation, Kaufman lashed out at Androsch, saying that one cannot have advancement "under socialized markets. We will have to let markets prosper, and those who don't make it will fail."

Kaufman's foolishness notwithstanding, he at least admitted that existing financial conditions are dangerous.

In a session on July 13, Robert Shiller, economist at Yale University and author of *Irrational Exuberance,* said that there is a high-tech stock bubble, "and when it bursts, it will bring down the rest of the market." He said, "The tripling of the value of the capitalization of the [U.S.] stock market over the last five years is out of whack. There is no connection to productivity or anything. Nothing else has tripled."

Shiller warned that the market is unsustainable, and he later told *EIR,* "I believe that the market will come down sharply. The stock market crashed on Oct. 28-29, 1929. But that was not a one-day affair. The collapse extended into 1933. There was great tumultuousness. The same thing will happen today. This will not be a one-day event. It will fall on one day, but the fall will continue to extend over years. It will cause a decline in the economy." Shiller told the conference, "I know some foundations and endowments [managers] are in the audience. I hope your investment is in bonds."

Other conference speakers warned of a potential financial crisis, indicating a broader awareness of the crisis that has not been allowed to seep out to the public.

Game-Theory

But, instead of a fundamental solution to the crisis, participants were given a heavy dose of cognition-destroying game-theory and war-games. In this, Schwartz played a critical role.

Schwartz co-directed two workshops at the conference, on "scenario building and simulations." At one session, he described how he spread game-theory into Royal Dutch Shell, a firm that is a major part of British intelligence, and how it could be used today.

Schwartz utilized his experience at the Research Institute (where Age of Aquarius guru Willis Harman rules the roost) to become, in 1982, head of Royal Dutch Shell's intelligence-linked Scenario Planning Department, with a staff of 35 people. There, Schwartz introduced the company's seven-member Committee of Managing Directors to the idea that the price of oil might fall. He stated, "The idea was to present them with one outlook that would give them psychological comfort, so that they would feel comfortable considering other alternatives. This is something you should do in scenario planning. Include something that they will agree with. So, we presented the idea that the price of oil would go to $80 per barrel—which these individuals would like—and the idea that it would be $35 per barrel, and that it would be $15 per barrel." Then, said Schwartz, "we gave them a model, in which they could change the variables. Once a variable was changed, a result would be posted [to be visible]. At first they were reluctant to play with the model, but they did for an hour and a quarter. Then we scheduled another meeting for one hour, and it ran four hours. These managing directors are not the type to take an afternoon doing something like this, but they got into it." Schwartz asserted, "The key thing is not the specific outcome of the scenario. The key thing is that you change the functioning and behavior of the decision-makers."

Fundamentally, game-theory is but a variation of the systems analysis of John von Neumann and the statistical "information theory" of Norbert Wiener. By intent, game-theory destroys the creative power of human cognition. It is by definition, a linearized system of thought, in which the game "model" is a built upon a set of deductive axiomatic assumptions which pre-determine the outcome of the game. But, the human mind is not linearized. Uniquely, human creative reason generates an ordered series of discoveries of fundamental scientific principle. These necessarily lie outside the linearized model. Thus, game-theory outlaws this creative power of cognition. Schwartz's comment, that "the key thing is that you change the functioning and behavior of the decision-makers," exposes the fact that this is behavior modification.

At the CFR conference, Schwartz pointed out that the government of Singapore has a scenario-planning department, and that governments that have experimented with scenario planning include "Singapore, Britain, and Germany. But not France; the French do things differently."

Joining Schwartz on the panel was four-star Adm. William Flanagan (ret.), who was commander of the U.S. Atlantic Fleet during 1994-96, and who has carried out information-theory modelling of war games, in the military and, now, in the private sector. Flanagan explained how, in the 1990s, information-theory-modelling war-gaming was brought into the U.S. military, gloating, "We turned the military around."

But this game theory/information theory/systems analysis has application far beyond the precincts of the CFR. It has been used to destroy America's schools, corporations, workplaces, and government, and as a shock to speed the shift of America from a productive economy into a speculation-based, Information Age wasteland.

'Perception Was Important'

It became clear at the conference that game-theory had had a destructive effect. This was illustrated by the report-back session on the Jan. 22 simulation, where various audience members who had participated in the simulation shared their experiences. Many stressed how "perception was important," and the "collegiality of the team," and "how the process of how we reached the decision was so important." These were policymakers, holding top posts, and their utterings were completely pathetic.

This clinically shows how far the policymaking and thinking processes coming from Washington and Wall Street have collapsed, and how fast nations must flee from this, if they are to survive.

This was further confirmed by the last session of the conference, at which the featured speaker was Ray Kurzweil, one of the principal proponents of "virtual reality" and author of *The Age of Spiritual Machines, When Computers Exceed Human Intelligence*. Maurice "Hank" Greenberg, head of the giant American International Group (AIG) insurance firm and vice chairman of the CFR, introduced Kurzweil as "the Thomas Edison of the computer age."

Kurzweil said that he would explain "why we will be spending most of our lives in virtual reality." He said that, within ten years, individuals will be able to have systems built into their eyeglasses that will give them virtual reality, and that it will soon be difficult to distinguish between virtual reality and reality. In this setting, "scientists" will "beam out sensory experiences" of one person to another person. In an attack on human cognition, he averred, "By about 2030, non-biological intelligence will be comparable to human intelligence. There will be no clear distinction between the two."

Kurzweil showed one lunatic time-line, depicting the development starting with the one-cell organism, extending through *homo sapiens,* through the launching of agriculture, the development of the heat-powered machine, and so on, and culminating with . . . the Internet. The CFR audience fawned all over him, asking such questions as, "Based on these technologies, where will the Dow Jones go?" "How can I invest?" and so on.

What Preparation for the Crash?

At the end of the conference, *EIR* asked Kubarych what steps the CFR now envisages should be taken in light of the simulation and conference. Kubarych said that a large majority of the 75 people who had participated in the project's simulation, had said that they "favored the *status quo,* and favored not recommending any changes." He said that a few "heavy-free-market types" among the 75 simulators favored letting those who fail in the next financial turbulence, to "take their lumps," while a few others favored some regulatory changes. When asked, "Well, what did the simulation teach you?" Kubarych said: "It taught us how to explore the weaknesses and vulnerabilities of the financial system, so that we would know them better and where they are." This is patently false. He added, "It taught us how we can crisis-manage it better." Thus, as the bankrupt system collapses, the CFR will not give it up, but will attempt to crisis-manage it.

The potential for financial breakdown was often accurately presented at the conference, but no solution was even remotely discussed. Schwartz's call to hasten the death of tens of millions of Africans, in the face of a financial crisis which the CFR knows to be intensifying, is the logical outcome of its thinking, and a frightening warning about the future.