

The CIA/MSM Contra-Cocaine Cover-up

Exclusive: With Hollywood set to release a movie about the Contra-cocaine scandal and the destruction of journalist Gary Webb, an internal CIA report has surfaced showing how the spy agency manipulated the mainstream media's coverage to disparage Webb and contain the scandal, reports Robert Parry.

By Robert Parry

In 1996 as major U.S. news outlets disparaged the Nicaraguan Contra-cocaine story and destroyed the career of investigative reporter Gary Webb for reviving it the CIA marveled at the success of its public-relations team guiding the mainstream media's hostility toward both the story and Webb, according to a newly released internal report.

Entitled "Managing a Nightmare: CIA Public Affairs and the Drug Conspiracy Story," the six-page report describes the CIA's damage control after Webb's "Dark Alliance" series was published in the San Jose Mercury-News in August 1996. Webb had resurrected disclosures from the 1980s about the CIA-backed Contras collaborating with cocaine traffickers as the Reagan administration worked to conceal the crimes.

Although the CIA's inspector general later corroborated the truth about the Contra-cocaine connection and the Reagan administration's cover-up, the mainstream media's counterattack in defense of the CIA in late summer and fall of 1996 proved so effective that the subsequent CIA confession made little dent in the conventional wisdom regarding either the Contra-cocaine scandal or Gary Webb.

In fall 1998, when the CIA inspector general's extraordinary findings were released, the major U.S. news media largely ignored them, leaving Webb a "disgraced" journalist who unable to find a decent-paying job in his profession committed suicide in 2004, a dark tale that will be revisited in a new movie, "Kill the Messenger," starring Jeremy Renner and scheduled to reach theaters on Oct. 10.

The "Managing a Nightmare" report offers something of the CIA's back story for how the spy agency's PR team exploited relationships with mainstream journalists who then essentially did the CIA's work for it, mounting a devastating counterattack against Webb that marginalized him and painted the Contra-cocaine trafficking story as some baseless conspiracy theory.

Crucial to that success, the report credits "a ground base of already productive

relations with journalists and an effective response by the Director of Central Intelligence's Public Affairs Staff [that] helped prevent this story from becoming an unmitigated disaster.

"This success has to be viewed in relative terms. In the world of public relations, as in war, avoiding a rout in the face of hostile multitudes can be considered a success. By anyone's definition, the emergence of this story posed a genuine public relations crisis for the Agency." [As approved for release by the CIA last July 29, the report's author was redacted as classified, however, Ryan Devereaux of The Intercept identified the writer as former Directorate of Intelligence staffer Nicholas Dujmovic.]

According to the CIA report, the public affairs staff convinced some journalists who followed up Webb's exposé by calling the CIA that "this series represented no real news, in that similar charges were made in the 1980s and were investigated by the Congress and were found to be without substance. Reporters were encouraged to read the 'Dark Alliance' series closely and with a critical eye to what allegations could actually be backed with evidence. Early in the life of this story, one major news affiliate, after speaking with a CIA media spokesman, decided not to run the story."

Of course, the CIA's assertion that the Contra-cocaine charges had been disproved in the 1980s was false. In fact, after Brian Barger and I wrote the first article about the Contra-cocaine scandal for the Associated Press in December 1985, a Senate investigation headed by Sen. John Kerry confirmed that many of the Contra forces were linked to cocaine traffickers and that the Reagan administration had even contracted with drug-connected airlines to fly supplies to the Contras who were fighting Nicaragua's leftist Sandinista government.

However, in the late 1980s, the Reagan administration and the CIA had considerable success steering the New York Times, the Washington Post and other major news outlets away from the politically devastating reality that President Ronald Reagan's beloved Contras were tied up with cocaine traffickers. Kerry's groundbreaking report when issued in 1989 was largely ignored or mocked by the mainstream media.

That earlier media response left the CIA's PR office free to cite the established "group think" – rather than the truth – when beating back Webb's resurfacing of the scandal in 1996.

A 'Firestorm' of Attacks

The initial attacks on Webb's series came from the right-wing media, such as the Washington Times and the Weekly Standard, but the CIA's report identified the

key turning point as coming when the Washington Post pummeled Webb in two influential articles.

The CIA's PR experts quickly exploited that opening. The CIA's internal report said: "Public Affairs made sure that reporters and news directors calling for information as well as former Agency officials, who were themselves representing the Agency in interviews with the media received copies of these more balanced stories. Because of the Post's national reputation, its articles especially were picked up by other papers, helping to create what the Associated Press called a 'firestorm of reaction' against the San Jose Mercury-News."

The CIA's report then noted the happy news that Webb's editors at the Mercury-News began scurrying for cover, "conceding the paper might have done some things differently." The retreat soon became a rout with some mainstream journalists essentially begging the CIA for forgiveness for ever doubting its innocence.

"One reporter of a major regional newspaper told [CIA] Public Affairs that, because it had reprinted the Mercury-News stories in their entirety, his paper now had 'egg on its face,' in light of what other newspapers were saying," the CIA's report noted, as its PR team kept track of the successful counterattack.

"By the end of September [1996], the number of observed stories in the print media that indicated skepticism of the Mercury-News series surpassed that of the negative coverage, which had already peaked," the report said. "The observed number of skeptical treatments of the alleged CIA connection grew until it more than tripled the coverage that gave credibility to that connection. The growth in balanced reporting was largely due to the criticisms of the San Jose Mercury-News by The Washington Post, The New York Times, and especially The Los Angeles Times."

The overall tone of the CIA's internal assessment is one of almost amazement at how its PR team could, with a deft touch, help convince mainstream U.S. journalists to trash a fellow reporter on a story that put the CIA in a negative light.

"What CIA media spokesmen can do, as this case demonstrates, is to work with journalists who are already disposed toward writing a balanced story," the report said. "What gives this limited influence a 'multiplier effect' is something that surprised me about the media: that the journalistic profession has the will and the ability to hold its own members to certain standards."

The report then praises the neoconservative American Journalism Review for largely sealing Webb's fate with a harsh critique entitled "The Web That Gary Spun," with AJR's editor adding that the Mercury-News "deserved all the heat

leveled at it for 'Dark Alliance.'”

The report also cites with some pleasure the judgment of the Washington Post’s media critic Howard Kurtz who reacted to Webb’s observation that the war was a business to some Contra leaders with the snide comment: “Oliver Stone, check your voice mail.”

Neither Kurtz nor the CIA writer apparently was aware of the disclosure – among Iran-Contra documents – of a March 17, 1986 message about the Contra leadership from White House aide Oliver North’s emissary to the Contras, Robert Owen, who complained to North: “Few of the so-called leaders of the movement . . . really care about the boys in the field. ... THIS WAR HAS BECOME A BUSINESS TO MANY OF THEM.” [Emphasis in original.]

Misguided Group Think

Yet, faced with this mainstream “group think” as misguided as it was Webb’s Mercury-News editors surrendered to the pressure, apologizing for the series, shutting down the newspaper’s continuing investigation into the Contra-cocaine scandal and forcing Webb to resign in disgrace.

But Webb’s painful experience provided an important gift to American history, at least for those who aren’t enamored of superficial “conventional wisdom.” CIA Inspector General Frederick Hitz ultimately produced a fairly honest and comprehensive report that not only confirmed many of the longstanding allegations about Contra-cocaine trafficking but revealed that the CIA and the Reagan administration knew much more about the criminal activity than any of us outsiders did.

Hitz completed his investigation in mid-1998 and the second volume of his two-volume investigation was published on Oct. 8, 1998. In the report, Hitz identified more than 50 Contras and Contra-related entities implicated in the drug trade. He also detailed how the Reagan administration had protected these drug operations and frustrated federal investigations throughout the 1980s.

According to *Volume Two*, the CIA knew the criminal nature of its Contra clients from the start of the war against Nicaragua’s leftist Sandinista government. The earliest Contra force, called the Nicaraguan Revolutionary Democratic Alliance (ADREN) or the 15th of September Legion, had chosen “to stoop to criminal activities in order to feed and clothe their cadre,” according to a June 1981 draft of a CIA field report.

According to a September 1981 cable to CIA headquarters, two ADREN members made the first delivery of drugs to Miami in July 1981. ADREN’s leaders included Enrique Bermúdez and other early Contras who would later direct the major

Contra army, the CIA-organized FDN. Throughout the war, Bermudez remained the top Contra military commander.

The CIA corroborated the allegations about ADREN's cocaine trafficking, but insisted that Bermudez had opposed the drug shipments to the United States that went ahead nonetheless. The truth about Bermudez's supposed objections to drug trafficking, however, was less clear.

According to Hitz's *Volume One*, Bermudez enlisted Norwin Meneses, a large-scale Nicaraguan cocaine smuggler and a key figure in Webb's series, to raise money and buy supplies for the Contras. *Volume One* had quoted a Meneses associate, another Nicaraguan trafficker named Danilo Blandin, who told Hitz's investigators that he and Meneses flew to Honduras to meet with Bermudez in 1982. At the time, Meneses's criminal activities were well-known in the Nicaraguan exile community. But Bermudez told these cocaine smugglers that "the ends justify the means" in raising money for the Contras.

After the Bermudez meeting, Contra soldiers helped Meneses and Blandin get past Honduran police who briefly arrested them on drug-trafficking suspicions. After their release, Blandin and Meneses traveled on to Bolivia to complete a cocaine transaction.

There were other indications of Bermudez's drug-smuggling tolerance. In February 1988, another Nicaraguan exile linked to the drug trade accused Bermudez of participation in narcotics trafficking, according to Hitz's report. After the Contra war ended, Bermudez returned to Managua, Nicaragua, where he was shot to death on Feb. 16, 1991. The murder has never been solved. [For more details on Hitz's report and the Contra-cocaine scandal, see Robert Parry's [Lost History](#).]

Shrinking Fig Leaf

By the time that Hitz's *Volume Two* was published in fall 1998, the CIA's defense against Webb's series had shrunk to a fig leaf: that the CIA did not *conspire* with the Contras to raise money through cocaine trafficking. But Hitz made clear that the Contra war took precedence over law enforcement and that the CIA withheld evidence of Contra crimes from the Justice Department, Congress and even the CIA's own analytical division.

Besides tracing the evidence of Contra-drug trafficking through the decade-long Contra war, the inspector general interviewed senior CIA officers who acknowledged that they were aware of the Contra-drug problem but didn't want its exposure to undermine the struggle to overthrow Nicaragua's Sandinista government.

According to Hitz, the CIA had “one overriding priority: to oust the Sandinista government. . . . [CIA officers] were determined that the various difficulties they encountered not be allowed to prevent effective implementation of the Contra program.” One CIA field officer explained, “The focus was to get the job done, get the support and win the war.”

Hitz also recounted complaints from CIA analysts that CIA operations officers handling the Contras hid evidence of Contra-drug trafficking even from the CIA’s analysts.

Because of the withheld evidence, the CIA analysts incorrectly concluded in the mid-1980s that “only a handful of Contras might have been involved in drug trafficking.” That false assessment was passed on to Congress and to major news organizations, serving as an important basis for denouncing Gary Webb and his “Dark Alliance” series in 1996.

Although Hitz’s report was an extraordinary admission of institutional guilt by the CIA, it went almost unnoticed by major U.S. news outlets. By fall 1998, the U.S. mainstream media was obsessed with President Bill Clinton’s Monica Lewinsky sex scandal. So, few readers of major U.S. newspapers saw much about the CIA’s inspector general admitting that America’s premier spy agency had collaborated with and protected cocaine traffickers.

On Oct. 10, 1998, two days after Hitz’s Volume Two was posted on the CIA’s Web site, the New York Times published a brief article that continued to deride Webb but acknowledged the Contra-drug problem may have been worse than earlier understood. Several weeks later, the Washington Post weighed in with a similarly superficial article. The Los Angeles Times, which had assigned a huge team of 17 reporters to tear down Webb’s work, never published a story on the release of Hitz’s *Volume Two*.

In 2000, the Republican-controlled House Intelligence Committee grudgingly acknowledged that the stories about Reagan’s CIA protecting Contra drug traffickers were true. The committee released a report citing classified testimony from CIA Inspector General Britt Snider (Hitz’s successor) admitting that the spy agency had turned a blind eye to evidence of Contra-drug smuggling and generally treated drug smuggling through Central America as a low priority.

“In the end the objective of unseating the Sandinistas appears to have taken precedence over dealing properly with potentially serious allegations against those with whom the agency was working,” Snider said, adding that the CIA did not treat the drug allegations in “a consistent, reasoned or justifiable manner.”

The House committee still downplayed the significance of the Contra-cocaine scandal, but the panel acknowledged, deep inside its report, that in some cases, "CIA employees did nothing to verify or disprove drug trafficking information, even when they had the opportunity to do so. In some of these, receipt of a drug allegation appeared to provoke no specific response, and business went on as usual."

Like the release of Hitz's report in 1998, the admissions by Snider and the House committee drew virtually no media attention in 2000, except for a few articles on the Internet, including one at Consortiumnews.com.

Killing the Messenger

Because of this abuse of power by the Big Three newspapers, choosing to conceal their own journalistic negligence on the Contra-cocaine scandal and to protect the Reagan administration's image, Webb's reputation was never rehabilitated.

After his original "Dark Alliance" series was published in 1996, I joined Webb in a few speaking appearances on the West Coast, including one packed book talk at the Midnight Special bookstore in Santa Monica, California. For a time, Webb was treated as a celebrity on the American Left, but that gradually faded.

In our interactions during these joint appearances, I found Webb to be a regular guy who seemed to be holding up fairly well under the terrible pressure. He had landed an investigative job with a California state legislative committee. He also felt some measure of vindication when CIA Inspector General Hitz's reports came out.

However, Webb never could overcome the pain caused by his betrayal at the hands of his journalistic colleagues, his peers. In the years that followed, Webb was unable to find decent-paying work in his profession, the conventional wisdom remained that he had somehow been exposed as a journalistic fraud. His state job ended; his marriage fell apart; he struggled to pay bills; and he was faced with a forced move out of a just-sold house near Sacramento, California, and in with his mother.

On Dec. 9, 2004, the 49-year-old Webb typed out suicide notes to his ex-wife and his three children; laid out a certificate for his cremation; and taped a note on the door telling movers, who were coming the next morning, to instead call 911. Webb then took out his father's pistol and shot himself in the head. The first shot was not lethal, so he fired once more.

Even with Webb's death, the big newspapers that had played key roles in his destruction couldn't bring themselves to show Webb any mercy. After Webb's body was found, I received a call from a reporter for the Los Angeles Times who knew

that I was one of Webb's few journalistic colleagues who had defended him and his work.

I told the reporter that American history owed a great debt to Gary Webb because he had forced out important facts about Reagan-era crimes. But I added that the Los Angeles Times would be hard-pressed to write an honest obituary because the newspaper had not published a single word on the contents of Hitz's final report, which had largely vindicated Webb.

To my disappointment but not my surprise, I was correct. The Los Angeles Times ran a mean-spirited obituary that made no mention of either my defense of Webb or the CIA's admissions in 1998. The obituary more fitting for a deceased mob boss than a fellow journalist was republished in other newspapers, including the Washington Post.

In effect, Webb's suicide enabled senior editors at the Big Three newspapers to breathe a little easier, one of the few people who understood the ugly story of the Reagan administration's cover-up of the Contra-cocaine scandal and the U.S. media's complicity was now silenced.

No Accountability

To this day, none of the journalists or media critics who participated in the destruction of Gary Webb has paid a price for their actions. None has faced the sort of humiliation that Webb had to endure. None had to experience that special pain of standing up for what is best in the profession of journalism, taking on a difficult story that seeks to hold powerful people accountable for serious crimes, and then being vilified by your own colleagues, the people that you expected to understand and appreciate what you had done.

In May 2013, one of the Los Angeles Times reporters who had joined in the orchestrated destruction of Webb's career acknowledged that the newspaper's assault was a "tawdry exercise" amounting to "overkill," which later contributed to Webb's suicide. This limited apology by former Los Angeles Times reporter Jesse Katz was made during a radio interview and came as filming was about to start on "Kill the Messenger," based on a book by the same name by Nick Schou.

On KPCC-FM 89.3's *AirTalk With Larry Mantle*, Katz was pressed by callers to address his role in the destruction of Webb. Katz offered what could be viewed as a limited apology.

"As an L.A. Times reporter, we saw this series in the San Jose Mercury News and kind of wonder[ed] how legit it was and kind of put it under a microscope," Katz said. "And we did it in a way that most of us who were involved in it, I think, would look back on that and say it was overkill. We had this huge team of people

at the L.A. Times and kind of piled on to one lone muckraker up in Northern California.”

Katz added, “We really didn’t do anything to advance his work or illuminate much to the story, and it was a really kind of a tawdry exercise. And it ruined that reporter’s career.”

Now, with the imminent release of a major Hollywood movie about Webb’s ordeal, the next question is whether the major newspapers will finally admit their longstanding complicity in the Contra-cocaine cover-up or whether they will simply join the CIA’s press office in another counterattack.

Investigative reporter Robert Parry broke many of the Iran-Contra stories for The Associated Press and Newsweek in the 1980s. You can buy his new book, *America’s Stolen Narrative*, either in [print here](#) or as an e-book (from [Amazon](#) and [barnesandnoble.com](#)). For a limited time, you also can order Robert Parry’s trilogy on the Bush Family and its connections to various right-wing operatives for only \$34. The trilogy includes *America’s Stolen Narrative*. For details on this offer, [click here](#).

Facts Needed on Malaysian Plane Shoot-Down

Exclusive: As usual, the mainstream U.S. media is rushing to judgment over the crash of a Malaysian airliner in war-torn eastern Ukraine, but the history of U.S. government’s deceptions might be reason to pause and let a careful investigation uncover the facts, says ex-CIA analyst Ray McGovern.

By Ray McGovern

It will likely take some time to determine who downed the Malaysia Airlines Boeing-777 over eastern Ukraine on Thursday, killing all 298 people onboard. Initial speculation is that someone with a missile battery mistook the plane as a military aircraft, but the precise motive may be even harder to discern.

Given the fog of war and the eagerness among the various participants to wage “information warfare,” there is also the possibility that evidence especially electronic evidence might be tampered with to achieve some propaganda victory.

Ukrainian President Petro Poroshenko immediately labeled the tragedy “a terrorist act” although there was no evidence that anyone intentionally shot

down the civilian airliner. But Poroshenko and others in the Kiev government have previously designated the ethnic Russians, who are resisting the Feb. 22 overthrow of elected President Viktor Yanukovich, as “terrorists” so Poroshenko’s bellicose language was not a surprise.

For their part, the separatist rebels in eastern Ukraine denied responsibility for the crash saying they lacked anti-aircraft missiles that could reach the 33,000-foot altitude of the Malaysian airliner but there are reasons to suspect the rebels, including their previously successful efforts to shoot down Ukrainian military aircraft operating in the war zone.

On Thursday, Russian President Vladimir Putin deflected questions about who may have fired the missile as he called for an international investigation. But he made a telling point when he noted that the “tragedy would not have happened if military actions had not been renewed in southeast Ukraine.”

Those likely to agree with that statement include German Chancellor Angela Merkel and French President Francois Hollande who, during a lengthy four-way conference call with Poroshenko on June 30, tried desperately to get him to prolong the ceasefire. Only the U.S. voiced support for Poroshenko’s decision to spurn that initiative and order Ukrainian forces into a major offensive in the east.

It was in the context of Ukrainian forces using their airpower to strike rebel positions that led to the rebels’ efforts to neutralize that advantage by deploying anti-aircraft missiles that have achieved some success in downing Ukrainian military planes. The Ukrainian military is also known to possess anti-aircraft batteries scattered throughout the country.

Raw Meat for Russia Bashing

But the chance to further demonize Putin and Russia will be hard for Official Washington and its corporate-owned press to resist. The New York Times was quick out of the starting blocks on Friday with a lead editorial blaming the entire Ukraine conflict, including the Malaysian Airline tragedy, on Putin:

“There is one man who can stop it President Vladimir Putin of Russia, by telling the Russian-backed separatists in eastern Ukraine to end their insurgency and by stopping the flow of money and heavy weapons to those groups.”

Among Putin’s alleged offenses, according to the Times, has been his “failing to support a cease-fire and avoiding serious, internationally mediated negotiations” though Putin has actually been one of principal advocates for both a cease-fire and a negotiated solution. It has been the U.S.-backed Poroshenko who canceled the previous cease-fire and has refused to negotiate with the

ethnic Russian rebels until they essentially surrender.

But the death of all 298 people onboard the Malaysian Airline flight, going from Amsterdam to Kuala Lumpur, will surely provide plenty of fuel for the already roaring anti-Russian propaganda machine. Still, the U.S. press might pause to recall how it's been manipulated by the U.S. government in the past, including three decades ago by the Reagan administration twisting the facts of the KAL-007 tragedy.

In that case, a Soviet fighter jet shot down a Korean Air Line plane on Sept. 1, 1983, after it strayed hundreds of miles off course and penetrated some of the Soviet Union's most sensitive airspace over military facilities in Kamchatka and Sakhalin Island.

Over Sakhalin, KAL-007 was finally intercepted by a Soviet Sukhoi-15 fighter. The Soviet pilot tried to signal the plane to land, but the KAL pilots did not respond to the repeated warnings. Amid confusion about the plane's identity – a U.S. spy plane had been in the vicinity hours earlier – Soviet ground control ordered the pilot to fire. He did, blasting the plane out of the sky and killing all 269 people on board.

The Soviets soon realized they had made a horrendous mistake. U.S. intelligence also knew from sensitive intercepts that the tragedy had resulted from a blunder, not from a willful act of murder (much as on July 3, 1988, the USS Vincennes fired a missile that brought down an Iranian civilian airliner in the Persian Gulf, killing 290 people, an act which President Ronald Reagan explained as an "understandable accident").

But a Soviet admission of a tragic blunder regarding KAL-007 wasn't good enough for the Reagan administration, which saw the incident as a propaganda windfall. At the time, the felt imperative in Washington was to blacken the Soviet Union in the cause of Cold War propaganda and to escalate tensions with Moscow.

Falsifying the Case

To make the very blackest case against Moscow, the Reagan administration suppressed the exculpatory evidence from the U.S. electronic intercepts. The U.S. mantra became "the deliberate downing of a civilian passenger plane." Newsweek ran a cover emblazoned with the headline "Murder in the Sky."

"The Reagan administration's spin machine began cranking up," wrote Alvin A. Snyder, then-director of the U.S. Information Agency's television and film division, in his 1995 book, *Warriors of Disinformation*.

USIA Director Charles Z. Wick "ordered his top agency aides to form a special

task force to devise ways of playing the story overseas. The objective, quite simply, was to heap as much abuse on the Soviet Union as possible," Snyder recalled.

Snyder noted that "the American media swallowed the U.S. government line without reservation. Said the venerable Ted Koppel on the ABC News 'Nightline' program: 'This has been one of those occasions when there is very little difference between what is churned out by the U.S. government propaganda organs and by the commercial broadcasting networks.'"

On Sept. 6, 1983, the Reagan administration went so far as to present a doctored transcript of the intercepts to the United Nations Security Council (a prelude to a similar false presentation two decades later by Secretary of State Colin Powell on Iraq's alleged weapons of mass destruction).

"The tape was supposed to run 50 minutes," Snyder said about recorded Soviet intercepts. "But the tape segment we [at USIA] had ran only eight minutes and 32 seconds. ... 'Do I detect the fine hand of [Richard Nixon's secretary] Rosemary Woods here?' I asked sarcastically."

But Snyder had a job to do: producing the video that his superiors wanted. "The perception we wanted to convey was that the Soviet Union had cold-bloodedly carried out a barbaric act," Snyder wrote.

Only a decade later, when Snyder saw the complete transcripts – including the portions that the Reagan administration had hidden – would he fully realize how many of the central elements of the U.S. presentation were false.

The Soviet fighter pilot apparently did believe he was pursuing a U.S. spy plane, according to the intercepts, and he was having trouble in the dark identifying the plane. At the instructions of Soviet ground controllers, the pilot had circled the KAL airliner and tilted his wings to force the aircraft down. The pilot said he fired warning shots, too. "This comment was also not on the tape we were provided," Snyder wrote.

It was clear to Snyder that in the pursuit of its Cold War aims, the Reagan administration had presented false accusations to the United Nations, as well as to the people of the United States and the world. To these Republicans, the ends of smearing the Soviets had justified the means of falsifying the historical record.

In his book, Snyder acknowledged his role in the deception and drew an ironic lesson from the incident. The senior USIA official wrote, "The moral of the story is that all governments, including our own, lie when it suits their purposes. The key is to lie first." [For more details on the KAL-007 deception

and the history of U.S. trickery, see Consortiumnews.com's "[A Dodgy Dossier on Syrian War.](#)"

Reliability of U.S. Intelligence

It was not always this way. There was a time when the U.S. government wouldn't risk its credibility for a cheap propaganda stunt, knowing that there are moments when it is crucial for the world to believe what U.S. officials say.

Some of us will remember when, in 1962, U.S. Ambassador to the UN Adlai Stevenson showed the Security Council U-2 photographs of fledgling Soviet offensive missile bases in Cuba. It was the perfect squelch to the Soviets and their allies trying to sow doubt about the truth behind President John F. Kennedy's allegations.

Sadly, the credibility of U.S. officials and American intelligence is now at rock bottom. One need only think back on the evidence adduced to "prove" the existence of WMD in Iraq. "The intelligence and facts were being fixed around the policy" is what the head of British intelligence told Prime Minister Tony Blair on July 23, 2002, after conferring with CIA Director George Tenet at CIA headquarters on July 20.

I also have grown more and more suspicious of the official U.S. government account about the crash of TWA-800 on July 17, 1996. Shortly after departing Kennedy Airport in New York, the plane exploded off Long Island with 230 people killed. More than 100 eyewitnesses reported seeing an object they described variously as a "missile," "flare" or "rocket" rise up into the sky and merge with TWA Flight 800.

The immediate suspicion was that the disaster was an act of terrorism, although some speculation focused on the presence of U.S. Navy missile-carrying warships in the area. However, after raising much of the plane's wreckage from the sea bottom, the National Transportation Safety Board and Justice Department/FBI dismissed the eyewitness accounts of a missile and concluded instead that the explosion was caused by an electrical malfunction.

To help in selling this version, the CIA "technical experts" working under CIA Director George Tenet yes, the same fellow who described the Iraq WMD evidence as a "slam dunk" were enlisted to prepare a video artfully designed to discredit the missile claims. But the TWA800 Project Investigative Team a determined group of engineers, scientists, eyewitnesses and journalists have continued to challenge the official findings, including the CIA video. [To see the team's rebuttal, [click here.](#)]

Quite aside from the likelihood that CIA exceeded its authority with its

involvement in this domestic issue, it pains me as a former CIA analyst that my former colleagues would take part in this kind of deception, producing a video that was unprofessional at best and fraudulent at worst.

So, there is, sadly, additional reason to kick the tires of any fancy truck carrying “intelligence” offered by the U.S. with respect to the Malaysian Airline shoot-down on Thursday.

Ray McGovern works with Tell the Word, a publishing ministry of the ecumenical Church of the Saviour in inner-city Washington. He served as a CIA analyst for 27 years and is now on the Steering Group of Veteran Intelligence Professionals for Sanity (VIPS).

Tracing the Source of Income Inequality

Exclusive: Economist Thomas Piketty traces the explosion of income inequality in America to political decisions, especially the right-wing policies of Ronald Reagan who simultaneously slashed taxes for the rich and decried government intervention in the economy, writes Jim DiEugenio.

By Jim DiEugenio

The second half of Thomas Piketty’s provocative book, *Capital in the 21st Century*, addresses the structure and causes of economic inequality as he lays out recommendations for how to deal with what he sees as this pervasive and long-ignored problem. [For Part One of this review, [click here.](#)]

In this context, Piketty’s focus shifts to a detailed examination of income inequality in the United States, the combination of capital and earnings. He notes that at the end of the Nineteenth Century, American income distribution was more equitable than in Europe, in part, because the U.S. had fewer rentiers – landowners renting land to small farmers – and they were not as wealthy as those in Europe.

Then, despite the ups and downs of the Roaring Twenties, the Depression-era Thirties and World War II of the Forties, the trend by the middle of the century was toward a more equitable America. From 1950 to 1980, the level of inequality in America was at its lowest ebb in the century. Piketty noted that the top 10 percent owned about 30 to 35 percent of total wealth, a relatively modest amount. (p. 294)

American economist Paul Krugman refers to this “Ozzie and Harriet” era as “The

America We Love," a nostalgic time that has lodged in the American collective unconscious as the era of the Great American Middle Class when the combined impact of government policies from Franklin Roosevelt's New Deal through Lyndon Johnson's Great Society had combined to spread the national wealth more evenly.

But by the end of the century, the wealth of the top ten percent had zoomed upward to near 50 percent, surpassing Europe as the more economically unequal society. (p. 293) Indeed, since 1980, inequality of income skyrocketed in America as in no other country, a change attributable mostly to capital gains among the investment class along with "supply-side" and other tax cuts that followed Ronald Reagan's rise to the presidency in 1981.

This run-up in wealth was aided by extensive stock speculation, including the Internet bubble, the real-estate bubble and the general rise in the stock market, a trend that reversed early in the Twenty-first Century when the bubbles popped and the financial markets in 2007-08 faced the worst crisis since the Great Depression.

But the crash only temporarily halted this march toward inequality. As Piketty's chart reveals, after a dip in 2007-2008, there was a sharp rebound upward in divergence of income as government money and policies stabilized the financial markets but did little to help average Americans who faced high unemployment and a flood of home foreclosures destroying the net worth of many middle-class families. (See chart on page 292)

If this pattern of wealth disparity continues, Piketty predicts that the upper 10 percent will have about 60 percent of all income by 2030.

The Lucky 1 Percent

The author takes us further inside the numbers, showing that although the wealth of all segments of the top 10 percent grew faster than the American economy, it was the top 1 percent that grew the most. Its share of national income rose from 9 percent in the 1970s to 20 percent in the new millennium, more than doubling. (p. 296)

And here, Piketty makes one of his cogent observations, pointing out that the peak point for U.S. concentration of wealth in the Twentieth Century was 1929, the year of the Great Crash. In the ensuing 85-year time span, the other highest point of concentration was in 2007. At both points, the system collapsed, wreaking havoc across the economy.

Piketty's point is that it appears that no economic system can sustain this level of imbalance and stay at equilibrium. These imbalances, with wealth overloaded at the very top, cause dangerous instability, just as the ballast

from a broad middle class like the one during the “Ozzie and Harriet” era a half century earlier seems to keep a system relatively steady.

Prior to the 2007-08 crisis, there was a stagnation of purchasing power for the middle and working classes. This, in turn, caused them to take on debt, supplied by banks that had been freed from much of the regulation that had been imposed after the Great Crash of 1929. With banks doling out credit to risky borrowers, more volatility was injected into the financial system. (p. 297)

In his typically understated manner, Piketty writes: “If we consider the total growth of the U. S. economy in the thirty years prior to the crisis, that is, from 1977 to 2007, we find that the richest 10 percent appropriated three quarters of the growth. The richest 1 percent alone absorbed nearly 60 percent of the total increase in U.S. national income in this period. Hence for the bottom 90 percent, the rate of income growth was less than 0.5 percent per year.” (p. 297)

Concerning the current U.S. economic structure, this might be the most powerful and damning paragraph in the book. Piketty adds, “It is hard to imagine an economy and society that can continue functioning indefinitely with such extreme divergence between social groups.”

Indeed, the shocking ratio suggests that America is on the fast track to becoming a country of the rich, by the rich and for the rich assuming there is not another tumbling into a grave financial crisis.

Little for the Common Man

There are other troubling patterns in the U.S. economy, including the American trade imbalance, a constant drain on capital assets which get shifted overseas, much of it to the old Asian tiger, Japan, and also to the two new tigers, Korea and China. But after recognizing this concern as justified, Piketty observes that it is only part of the problem as far as non-wealthy Americans are concerned. The transfer of wealth upward amounts to *four times* what the trade deficit is. (p. 298)

One can at least argue that average Americans get some inexpensive foreign goods from the huge trade deficit. But what do average Americans get from the upward transfer of wealth? Mostly a chance to ogle at the lavish lifestyles of the rich and famous via TV shows and movies.

Piketty next shifts to wage inequality and its role in this imbalance, particularly the staggering increase in wages and salaries at the very top in recent years, a marked contrast from the eras of World War II and the post-war years.

During World War II, wage imbalance was tempered by the National War Labor Board, which granted frequent raises to low-wage earners and, conversely, capped and controlled the salaries of top managers. This ethic had a carry-over effect into the 1950s when local owners of companies felt some personal shame if they took excessive levels of compensation while their workers struggled to pay the bills.

“During the 1950’s, wage inequality in the United States stabilized at a relatively low level, lower than in France,” Picketty noted. (p. 298) But the respite in wage inequality ended a couple of decades later when top executives often working at headquarters far removed from their plants started pushing the limits of what they could extract from their corporations. Since then, the earned income of the top 10 percent began to grow much more rapidly than the average wage.

Social Immobility

But this rise in the share of income claimed by the top 10 percent was not accompanied by any equal growth in upward social mobility. There was no perceptible increase in people rising from working the cash register to running the company.

In addition to the coming of the super manager class, another reason that wage inequality has increased in America is the ineffectiveness of the minimum wage at the other end of the scale. In terms of real purchasing power, the minimum wage peaked in 1969. At that time it was \$1.60 per hour. In today’s dollars it was worth \$10.10.

The minimum wage stagnated, especially under Presidents Ronald Reagan and George H.W. Bush and has been stuck at \$7.25 since 2009, meaning that it has lost more than a quarter of its purchasing power since 1969 and is one-third below the minimum rate in France. (p. 309)

So, just as the wealthiest Americans were benefitting from Reagan’s “supply-side” tax cuts, the bottom wage earners were left to fend for themselves. Along with other social changes, such as the decline of labor unions and advances in technology, the effect of the government’s policy choices was to widen the gap between rich and poor.

As Picketty notes, the U.S. government had deftly used the minimum wage to raise the wage standard at the bottom end of the scale in the 1950s and 1960s, but it was largely abandoned as a policy tool since then. The 1970s and 1980s saw the rise of “free-market” fundamentalism with its advocates arguing that the minimum wage was a violation of their economic principles and a “job killer.”

By contrast, in France, since 1980, the minimum wage has almost tripled. (See chart on page 309) Piketty argues that from 1980 to 2000, the U.S. minimum wage has fallen so badly that it could have been raised significantly with absolutely no loss to the employment rate. (p. 313)

All of this means that those in the top 1 percent in America have an income about 100 times as great as the national average. As a point of comparison, the transfusion of national wealth to the top in America has occurred at a rate five to seven times greater than in Japan. (p. 320)

One reason is that, unlike in Japan, after 1970, boards of directors were all too eager to give their officer candidates just about whatever they wanted in the form of remuneration. And as Piketty points out, seldom was this done on a cost-benefit ratio for the company or the stockholders. In retrospect, it was really more on a "pay for luck" rather than performance standard, he says. (p. 335)

Capital Ownership

But in addition to this sharp divergence in wage inequality is what Piketty calls the inequality of capital ownership. For instance, in France, after the French Revolution, the share of what the top ten percent owned steadily rose from 55 percent in 1800 to 60 percent in 1880 and slightly above that by 1913, on the eve of World War I. This distribution was even more concentrated in England, where the top 10 percent owned about 80 to 90 percent of wealth by 1910.

In Europe, the catastrophes from 1914 to 1945 shattered the status quo, to the point that these rates of concentrated wealth have not been duplicated there again. Another factor has been the skepticism about free enterprise which set in after the Great Depression. Thus, Europe saw an expansion of both the middle class and the welfare state, encompassing about 50 percent of the population.

This new class also acquired a share of capital on its own, further preventing a dramatic resurgence of wealth to the top. (p. 347) Thus, as Piketty notes, of all the advanced countries, only the U.S. has a concentration of wealth that rivals Europe's at the turn of the century.

There is also the question of what would have happened if Europe had not plunged into the devastation of World War I, followed by the Great Depression and World War II. Could the politics of 1914 have restrained the rich from claiming an ever-larger share of the wealth?

Piketty notes that economic growth in wealth-stratified Europe with only a nominal middle class was extremely slow, less than 1 percent. But Piketty argues

the concentration of capital will not decrease significantly unless the growth rate exceeds 1.5 to 2 percent.

Here, the author makes a significant point, that when the difference between the rates of return on capital versus rate of growth of the economy reaches a certain threshold, inequality of wealth will increase without limit, and the gap between the elites and the average worker will grow indefinitely. In other words, the wealth of the upper classes would have gone completely unchecked. (p. 366)

Democratic Intervention

Piketty then asks a question directly related to the one posed above: Why has the rate of concentration not returned to that of the fin de siècle era? First, because the shocks to the system from the first half of the Twentieth Century were very serious. Second, because after these shocks, to pay off huge state debts, taxations rates went up radically.

Before World War I, taxes on capital were almost non-existent, generally amounting to about 2 percent. After the war, because of the huge amount of debt that the combatants incurred, taxes began to rise dramatically. (p. 355) And since there was no significant middle class, wealthy classes were the only place one could tax with any real results.

From about 1914-1970, these taxes were generally progressive, that is, the richest paid a higher rate than the lower-, working- and middle-classes. But that progressivity has steadily declined amid successful lobbying by "free-market" forces that have poured huge sums of money into think tanks, media outlets and, in the U.S., political campaigns.

Today, Piketty estimates that the wealthy pay about a 30 percent rate on their declared assets and this rate is going down (not to mention the fact that many rich individuals hide their assets either through legal loopholes or in illegal tax shelters).

By letting the rich better shield their assets, including their opportunity to pass down the wealth to their heirs, governments have cut themselves off from much of the money needed to pay for domestic and other needs.

Traditionally, much of the wealth of the well-to-do has come from inheritance. In France in the 1800s, the top 10 percent of those with inherited wealth earned as much as 25-30 times as the average worker, while a skilled professional made about 10 times as much as the average worker.

That reality, Piketty notes, was observed by author Honore de Balzac in his

classic novel, *Le Pere Goriot*. A criminal named Vautrin explains to a naive law student named Rastignac that the aspiring attorney would be better off marrying into wealth than working as an attorney.

In France in 1910, an astonishing 25 percent of all national income came from the flow of inheritances. Because of the Great Depression and other calamities, that declined significantly until 1950 when it stood at only 5 percent. (p. 397) But it has since risen to 15 percent in 2010 and Balzac's reality is steadily reasserting itself. The number of people who inherit the equivalent of a lifetime of wages has tripled since 1950.

So, because of these recurring imbalances in the system, the idea of a deservedly compensated meritocracy generally no longer applies.

U.S. Aristocracy

Turning to the United States, Piketty writes that the estate tax effectively applies to only about 2 percent of all estates. Plus, gifts money that living parents may pass on to their expectant heirs are very hard to track for tax purposes. (p. 422) Therefore, in America, inherited wealth constituted about 50-60 percent of the total stock of private capital from 1970-80.

The author concludes that "The global rebound of inherited wealth will no doubt be an important feature of the twenty-first century."

The next major topic that the book addresses is the global inequality of wealth. Piketty says that it appears that this imbalance is comparable to what existed in Europe at the end of the Nineteenth Century, which was comparable to France on the eve of the revolution in 1789.

Globally, the top centile the 1 percent category has about 50 percent of the total wealth and the top decile the richest 10 percent about 80 percent. The bottom half "undoubtedly owns less than 5 percent of total global wealth," Piketty writes. (p. 438)

The richest 1 percent, about 45 million people, has about 3 million euros or about \$4 million, which is about 50 times the size of the average household nest egg, which is 60,000 euros or \$81,600. The top tenth of 1 percent, some 4.5 million people, have fortunes in the range of 10 million euros or about \$13.6 million, nearly 200 times the average wealth. (ibid)

These global disparities are much higher than the comparisons between rich and the rest in the major advanced countries because of the radical international inequalities, comparing First World wealth with poverty-stricken places like sub-Saharan Africa and Central America.

The Real Threat

Piketty dismisses some of the common fears about a future international economy dominated by Saudi Arabia or China through their sovereign wealth funds. The danger that Piketty foresees is the rampant epidemic of inequality. He writes:

“An oligarchic type of divergence, that is, a process in which the rich countries would come to be owned by their own billionaires or, more generally, in which all countries, including China and the petroleum exporters, would come to be owned more and more by the planet’s billionaires and multimillionaires. As I noted, this process is already well under way.” (p. 463)

He says this is even more dangerous because he sees the rate of growth slowing and the rate of return on capital increasing. If this is correct, then the other prognostication the book makes, about there being no real limit on the divergence between upper and lower classes, will also be correct. In other words, the embattled middle class will continue to shrink and wealth will be increasingly consolidated at the top.

If one includes fortunes both purely inherited and partially inherited, Piketty writes, “it seems fairly clear that inherited wealth accounts for more than half of the total amount of the largest fortunes worldwide.” He adds that a figure of 60-70 percent seems fairly accurate though the real number might actually be higher because of the sophisticated methods available for hiding wealth. (p. 443)

So, what to do? The question is addressed in the last part of the book, entitled “Regulating Capital in the Twenty-First Century.” His chief recommendation is a universal and progressive global tax on capital, which would also require government to find where the capital actually is and who owns it. (p. 471)

Piketty draws a lesson from the Great Depression when President Franklin Roosevelt began to steadily and insistently raise taxes on the richest people in America. The top marginal rate went from 25 percent to eventually 80 percent. (p. 473) Roosevelt did this to finance his New Deal programs which greatly expanded the role of government in America by constructing a social welfare system.

As this system took shape, about half the money went to health and education. The other half went to transfer payments, e.g. welfare support, the GI Bill of Rights and various pension plans. During this time period, social mobility also increased in the United States. People from humble beginnings had a real shot at climbing the economic ladder.

However, since the Reagan era and the growing political hostility toward social

programs accompanied by massive tax cuts for the rich the trends of the New Deal have been reversed. Today, along with the concentration of wealth at the top and stagnation below, U.S. social mobility is on the decline, falling behind European nations such as Sweden.

Unequal Education

Piketty argues that one main cause is the increased difficulty that lower-class and middle-class students have in getting into the elite colleges and universities which cost so much that they are again becoming bastions for the well-born. (p. 485)

The average income of the parents of a Harvard graduate is \$450,000 per year, or the top 2 percent of the nation. And that college degree credentials the Harvard graduate as someone who can expect to stay at the top of the income ladder. Much less social value is given to a degree from a state college or a lesser known institution.

Piketty points out that this stratification doesn't jibe with America's self-image as a land of opportunity with a system based on meritocracy. He writes, "Parents' income has become an almost perfect predictor of university access." (p. 485)

With the exception of England, this is not the case in Europe. A year's tuition in most public colleges amounts to about 500 euros or about \$680, so a family's financial status is less an obstacle to a young person getting a higher education than in the United States. There, the average in-state cost for a public university is nearly \$9,000 and over \$30,000 at private colleges (and even higher at elite schools).

The idea of equal access to higher education is part of the progressive ideal, along with the progressive income tax. However, in the United States, both concepts are dying.

Currently, Piketty says, capital is largely immune to a progressive tax and estates are much more lightly taxed than income. In fact, under constant political pressure from the elites, the estate tax has been stigmatized as the "death tax" and the top marginal tax rates on income have declined from over 80 percent to about 35 percent in the U.S. (p. 507)

Piketty writes that this reversal clearly owes to the coming to power in the United States of Ronald Reagan (and in Great Britain of Margaret Thatcher). Under Reagan, the top rate actually declined below 30 percent. This slashing of the tax rates does much to explain the increase in wealth to the top 10 percent from 1980 onward.

Prior to Reagan, the high marginal tax rates restrained top business executives from demanding huge salaries and stock options. After all, as much as 80 percent of their top tranches of income would go to Uncle Sam. But the slashed tax rates meant that senior executives could keep more of that money so there was a stronger incentive to press for big compensation packages.

What to Do

Piketty believes that in the advanced nations, tax rates should return to a top margin of 80 percent, a rate reserved for the top 1 percent. Otherwise, the super-rich will be in a position to increasingly buy the political process and override public calls for greater equality.

“The history of the progressive tax over the course of the twentieth century suggests that the risk of drift toward oligarchy is real and gives little reason for optimism about where the United States is headed,” Piketty wrote. (p. 514)

The global tax he proposes is also a progressive one. It begins at 1 percent on income of 1-5 million euros. It goes to 2 percent on income above 5 million euros. (p. 517) But the main point of this tax is not so much to expand the social state but to regulate capitalism by accumulating more accurate and detailed information on wealth.

Beyond benefitting democracy, the data also might provide an early warning on fiscal crises, Piketty believes. His plan would also promote uniformity among nations in their banking regulations and therefore eliminate some of those infamous tax havens.

Piketty concludes with the concept of public debt, a problem facing all advanced countries because of the 2007-08 crisis. One of the things the increased taxes on the wealthy could do is begin to eliminate that debt.

But his larger point is that if the public is to regain control of capitalism and the destabilizing extremes that it produces then the people must bet on democracy. (p. 573) He closes by saying that many more people need to take an interest in this growing worldwide inequality, from social scientists, journalists, commentators, union leaders and politicians of whatever stripe. He says:

“Citizens should take a serious interest in money, its measurements, the facts surrounding it, and its history. Those who have a lot of it never fail to defend their interests. Refusing to deal with numbers rarely serves the interest of the least well off.” (p. 577)

An honest academic has taken a stand. He has shown with a solid database how the

unbridled capitalism unleashed by the likes of Thatcher and Reagan has ravaged our government treasuries and our democratic principles. The urgency of his work should sound like a fire alarm in the middle of the night.

Jim DiEugenio is a researcher and writer on the assassination of President John F. Kennedy and other mysteries of that era. His most recent book is [Reclaiming Parkland](#). [For Part One of DiEugenio's review of Piketty's book, [click here](#).]

Piketty's Exploration of Modern Capital

Exclusive: Despite some predictable griping from the Right, Thomas Piketty's *Capital in the 21st Century* has reinforced the case that Western societies and especially America are concentrating wealth at the very top and shortchanging almost everyone else, as Jim DiEugenio writes.

By Jim DiEugenio

Probably no economics book since Naomi Klein's *The Shock Doctrine* has generated so much controversy or interest as French economist Thomas Piketty's *Capital in the 21st Century*, with the debate extending downward into the general public.

At the restaurant where I was reading it, a man turned around and said, "Had to wait two weeks for it. I just got it three days ago. It really shows how the system is skewed against us."

And that comment reveals the great appeal of the book because Piketty's prime interest as an economist, perhaps his obsessive interest, is the subject of the inequality in the distribution of wealth, i.e., "how the system is skewed against us." His book is, to my knowledge, the largest and most thorough compendium on the subject.

Piketty examines the subject from a comparative geographical angle, i.e. between regions of the world, and from an historical angle, that is, over the last two centuries. He examines the issue comparatively between nations and then projects the future of inequality.

Near the beginning of the book, the 43-year-old Piketty pointedly reveals why he undertook such an exhaustive study of this topic and why he felt such an examination was necessary. The author wrote his Ph. D. thesis on wealth redistribution while studying in England and France. He then taught in the United States for two years, but says he left America because he felt that the economists were overly concerned with mathematical theories and not enough about

the search for empirical data to back those theories up. (See pgs. 31-32)

Because of this gap between statistics and theory, Piketty found his American colleagues' work unconvincing. Or as he puts it rather eloquently and forcefully: "The discipline of economics has yet to get over its childish passion for mathematics and for purely theoretical and often highly ideological speculation, at the expense of historical research and collaboration with other social sciences."

He continued, "The truth is that economics should never have sought to divorce itself from the other social sciences and can advance only in conjunction with them." He then hammers this point home in two sentences which actually express the overall theme of his book:

"If we are to progress in our understanding of the historical dynamics of the wealth distribution and the structure of social classes, we must obviously take a pragmatic approach and avail ourselves of the methods of historians, sociologists, and political scientists as well as economists. We must start with fundamental questions and try to answer them." (p. 33)

Piketty felt that American economists did not do this to a large extent; they did not interact with other disciplines to find out the answers to fundamental questions about economic problems of the modern world. Or as he put it, after being an American academic economist in the 1990s, "I was only too aware of the fact that I knew nothing at all about the world's economic problems."

Detecting Flaws

Piketty concluded that this was so, in part, because there had been no serious attempt to collect historical data since Simon Kuznets's flawed and incomplete attempt in the 1950s. Therefore, "the profession continued to churn out purely theoretical results without even knowing what facts needed to be explained. And it expected me to do the same." (p. 32)

Thus, Piketty returned to Paris where he felt he could pursue this quest more efficiently. After winning a prize in 2002 for being the best young economist in France, he became head of the economics department at the Paris School of Economics.

It was upon his return to France that he began to work with like-thinking economists like Anthony Atkinson in England and Emmanuel Saez in America. Their common goal was to find and accumulate the largest and most accurate information database concerning the history of national and personal income.

This database did not just pertain to the major Western economies like Great

Britain, France and America. It is a far-flung database spreading as far away as India and Indonesia, since Piketty was not just interested in mature, post-industrial economies; he also wanted to examine how economies developed in the post-colonial Third World.

Although the information he has dug up and archived is unprecedented, the author is candid about its shortcomings because data has evolved over time, with some countries, such as France and Great Britain, having a longer record of reliable statistics than others and some countries having gaps due to war or social instability. He qualifies his judgments in the face of these gaps and limitations.

For instance, in his discussion of the German economy, he admits there are "serious lacunae in German tax records." (p. 325) The quality of scholarship and honesty of the book is that Piketty then spends a paragraph explaining why the German record is not complete. What this reveals is that the author went searching for the complete history of modern German tax records but could not locate it.

Without doubt, it is this archival work, done in conjunction with Saez and Atkinson, that forms the backbone of Piketty's book. And it is this work that the author adroitly uses to strike a blow at the theorists he decided to leave behind in America in the 1990s.

Two of the men Piketty takes aim at are Simon Kuznets and his disciple Arthur Laffer the first directly, the second indirectly. Nobel Prize winner Kuznets, way before Laffer, had his own economics curve. (See pgs. 13-17) Kuznets described what he called a natural cycle of economic inequality driven by market forces. During the first phase inequality increased, and then the inequality decreased as the economy matured: average incomes were attained and the trickle down of benefits from rapid growth increased overall per capita income.

Arthur Laffer, a key figure in President Ronald Reagan's "supply-side economics" of sweeping tax cuts tilted to the wealthy, essentially modified Kuznets by saying that if one helps capital development along by reducing taxes, especially on the rich, the benefits would be even more munificent. In selling this theory to Reagan's team, Laffer once famously sketched his "Laffer curve" on a cocktail napkin.

Make no mistake: Piketty is fair to Kuznets. He praises the man for trying to accumulate data into his work. But he then adds that the data was incomplete and Kuznets misinterpreted what he had. There can be little doubt that Piketty plunges another harpoon into the Kuznets curve. The author demonstrates that any convergence of wealth from the time period 1914 to approximately 1970 did not

originate with any kind of “maturation of capitalism.”

The convergence of capital into more equal distribution of wealth in those years came from the massive capital outlays to fight two world wars, the evaporation of much capital because of the Wall Street crash of 1929, and the welfare outlays that took place during the Great Depression and in efforts to rebuild Europe after World War II.

But most crucially, after this, from about 1980 onward, the divergence of capital that is the growth of inequality became more pronounced to the point that today, the concentration of capital in the upper classes is almost as high as before World War I; as it was during the Gilded Age. Piketty explains this as being primarily political in its inception. Owing to the initiation of policies by people like Margaret Thatcher and Ronald Reagan, (p. 42) inspired by Laffer’s curve, a derivative of the Kuznets curve.

Piketty’s Approach

Piketty’s book divides into four parts with 16 chapters. In Part One and his introduction, he discusses and reviews past theories about the accumulation of income and capital. Therefore, here he analyzes prior ideas on these subjects written by luminaries like Kuznets and Karl Marx.

As with Kuznets, Piketty is fair to Marx but critical. He gives Marx credit for shifting the analytic focus from the era of land ownership and rents to understanding the dynamics of industrial capitalism. (p. 7) Marx understood that although the accumulation of capital and industrial profits radically increased during the Industrial Revolution, wages stagnated and therefore there was no development of a middle class. As a result, from 1870 to 1914, there was a “stabilization of inequality at an extremely high level.” (p. 8)

Piketty gives Marx further credit for seeing that, under those conditions, no stable socioeconomic or political equilibrium was possible. (p. 9) But Piketty adds, in the last third of the Nineteenth Century, wages did begin to increase.

Differing with Marx, Piketty said his study would concentrate not so much on the importance of *accumulated* capital, but on *inherited* capital. And further, how this compares with the rate of national income. (pgs. 18-19) He added that he could do this because, unlike Marx, he had a much wider array of data to draw upon. And beyond what Marx could even dream of, Piketty has the computer technology to create enlightening matrixes for comparison purposes. (An appealing aspect of the book is the many charts Piketty uses to illustrate his points visually and dramatically.)

Agreeing with Marx, Piketty wrote that due to his research he found that

inequality is not just economic in origin. It is also strongly influenced by political and social forces. (p. 20) He then adds that, unlike what Kuznets implied, "there is no natural, spontaneous process to prevent destabilizing, inegalitarian forces from prevailing permanently." (p. 21)

This is a key point because later in the book Piketty argues that it was this inequality which was at least, in part, a direct cause of the economic blowout of 2007-08. But perhaps more importantly, that blowout, which was the closest parallel we have had with 1929, has not stopped the growth in inequality. (p. 296)

One of the key points Piketty makes is why he feels this is the case and has continued to be the case. He writes that one of the key problems he discovered was that of slow economic growth, which he pegs as about 1.6 percent in the Twentieth Century. (p. 86)

What this does is accent and aggrandize the importance of inherited wealth. For if the growth of output in the economy does not match the rate of return that capital can maintain in the market, then the economy will stagnate due to a lack of technological innovation and educational skills to diversify and grow the economy and provide more jobs and benefits for more people.

Piketty's study proved to him that this indeed was the case, which is why annual national income is much, much less in any developed country than the amount of accumulated capital. As Piketty notes, this discovery, which he expresses as the formula $r > g$, "will play a crucial role in this book. In a sense, it sums up the overall logic of my conclusions." (p. 25)

Piketty's long introduction serves as a kind of overture to what the author will get at in the heart of his work. And it is here that Piketty makes clear how his work differs in aim from both the economics establishment in America and from failed experiments to achieve more economic equality in Europe, America and Russia. He writes:

"By contrast, I am interested in contributing, however modestly, to the debate about the best way to organize society and the most appropriate institutions and policies to achieve a just social order."

(This is not the first time this idea about slow growth and how it benefits inherited wealth has been expressed. As Professor Donald Gibson, who has done much work on the inherited fortunes of America, has noted, an article by David Deitch in *The Nation* argued a similar thesis in the Aug. 31, 1974 issue.)

Skyrocketing Inequality

At the start of Part One, Piketty hammers home two points of his research. First, the rise of income inequality has skyrocketed in the Western world since about 1980, and most prominently in the United States. (See the graph on page 24 for an illustration.)

Secondly, the indications of slow growth are obvious because of the comparison of annual national income with accumulated capital stock. Piketty writes that, generally speaking, in modernized countries, it now takes about 5 to 6 years of national income to equal the accumulated capital. (p. 50)

From there, the author goes on to compare different regions of the world in rates of per capita income. He comes to a startling conclusion: the rate of growth in the West is so slow that parts of what we call the undeveloped world are now catching up to the West in both capital accumulation and personal income. Piketty identifies countries like China and South Korea as examples.

Piketty notes that this is not due to any help by the industrialized world; it is simply a function of the international spread of knowledge and skills as developed around a government that wishes to utilize them as part of a national aim. He contrasts this with what has happened in the West where the promise of economic and social progress inherited from the Enlightenment has now been all but extinguished, largely because of chronic slow growth. He writes:

“Economic growth is quite simply incapable of satisfying this democratic and meritocratic hope, which must create specific institutions for the purpose and not rely solely on market forces or technological progress.” This is a point the author will return to in his final section where he discusses recommendations for reform.

Piketty concludes Part One of his book with a cogent and relevant observation based on his historical research. He writes that prior to World War I, the concept of inflation did not really exist. (p. 103) Inflation began because of the enormous amount of debt incurred by combatants of the war to supply their military efforts. After the war, all the countries involved “resorted to the printing press to deal with their enormous public debts.” (p. 107)

This begins another theme of the book: the decades-long transfer of wealth from the government and the lower classes to the economic elites, which, of course, is another prime cause of inequality.

So far, all of this has been interesting. But, as the author writes in his introduction, the heart of the book, its reason d’être, is in Parts Two and Three, respectively, entitled, “The Dynamics of the Capital/Income Ratio” and “The Structure of Inequality.”

The Role of War

For Piketty, the ratio of national income to capital stock is a key measure. And on pages 116 and 117, he features two important graphs illustrating the curve of that ratio in England and France from 1700 to 2010. These two graphs chart an inverted bell curve.

Piketty's historical research reveals that in 1700 the ratio was about seven years of national income to equal accumulated capital, or 7 to 1. Because of the economic factors of war and the Great Depression, this dropped in the 1900s to a low point of about 2.5 to 1 in the 1940s, a decline that took almost two centuries to complete.

The incredible part of the two graphs is this: It took just 60 years for the ratio to return to 6 to 1! And according to the author it is still on the upswing. In other words, in relation to national income versus accumulated capital, England and France are almost back to a point in history when there were no unions, no middle class and no public pensions. Piketty writes:

"Broadly speaking, it was the wars of the twentieth century that wiped away the past to create the illusion that capitalism had been structurally transformed."
(p. 118)

Piketty then goes inside the numbers, writing that a major difference between 1700 and today is that the center of value for capital back then was farmland. Today, the largest values in capital are in housing and in financial assets, i.e., stocks and bonds. (pgs. 119-120) He also notes that another major difference between the two eras is the decline in importance of the value of foreign assets.

For instance, prior to World War I, England had imperial assets worth about two years of national income, but that wealth evaporated by 1950 when England lost control over its far-flung empire.

Another point the author brings up is the comparison between private wealth and public wealth, i.e., how much surplus revenue the national government has. This is an important point since governments can do much to encourage economic equality if they have the revenue to do it.

Today, in France and England, this number is negligible. In France, public wealth amounts to about 5 percent of total national wealth. In England it's even less, about 1 percent. (p. 125)

Piketty also points out that the loans made to governments by the upper classes to cover debts from the wars and other needs worked out quite well for the rich.

The great public debt incurred by England and France due to warfare in the Twentieth Century returned to the private creditors at a rate of about 4-5 percent per annum. (p. 131)

This remarkably high ratio of capital to national income varies very little from advanced country to advanced country. For example, in Germany the ratio is 6.5 to 1. (p. 141) This relative value from government bonds diverts money from riskier investments, meaning that the rate of innovation and new job creation is relatively low in regards to inherited wealth.

Scarcity for the Commonwealth

Since public wealth is also low, governments have little money to pay for programs that will help spur employment and restore growth, a situation exacerbated by the large amounts of money spent by governments to counteract the 2007-08 recession, funds that went disproportionately to bailing out banks and stabilizing the financial systems, not to building infrastructure or funding research or other activities that would benefit working people and the broader society.

The vast expenditures were largely made simply to save the economic system from further damage, not to create employment and wealth. And, as Piketty notes, the ratio of this formula has not abated since the blowout, continuing to grow in the eight wealthiest countries, i.e. the United States, Germany, England, Canada, Japan, France, Italy and Australia. (p. 171)

Piketty is at pains to stress just how important this current trend is. He writes that at the advent of the 1970s, total value of private wealth stood at about 2 to 3.5 years of national income in all the wealthiest nations. Today that figure has doubled to 4 to 7 years. (p. 173) He writes:

“What we are witnessing is a strong comeback of private capital in the rich countries the emergence of a new patrimonial capitalism.”

What makes it worse is that in most cases, government has not been a force to counteract this disturbing trend, often serving as an agent abetting it. Or as the author writes, “The revival of private wealth is partly due to the privatization of national wealth.” (p. 184)

And since the ration of public wealth to private wealth is declining, there seems to be little hope that the former will be able to do anything to reverse that trend in the near future, especially since the main method of privatization, the selling of government bonds, increases private wealth without increasing national wealth. (p. 185)

What has accelerated this runaway factor is that since World War II, the prime assets of the upper classes, real estate and stocks, have steadily risen in value., especially from 1980 to 2007 when they greatly accelerated in value. At the same time, the elites began to lobby for lower taxes on capital gains and estates, especially in America.

Division of National Income

Piketty next moves to an examination of the division of national income between labor and capital. (p. 199) In his studies, the author has found that overall, in England and France, the annual rate of return on capital has averaged about 5 to 6 percent annually. (p. 200) In his graphs illustrating the split in annual income between the two, a familiar trend manifests itself. In 1940, the share going to labor peaked out at about 87 percent. Today, it is about 74 percent.

Again, Piketty takes us inside the numbers, computing the average tax rate on capital at about 30 percent. (p. 208) He then figures that the total of all wealth in checking and savings accounts is about 5 percent of total wealth, which is a remarkably low figure considering the amount of the population which keeps much of its cash assets in those accounts. In comparison, the return on investment of rental housing is half of total national wealth, with most of that income going to the upper classes.

The author ends this section of his book by concluding that there seems to be no visible means today to halt, or even slow down, the trend of a rising capital versus labor share of national income, either as a split in annual national income or as a ratio of national income to accumulated stock capital. (p. 233) As he puts it:

“The principal lesson of this second part of the book is surely that there is no natural force that inevitably reduces the importance of capital and of income flowing from ownership of capital over the course of history.” (p. 234)

The implicit message is that government especially democratic ones that have a responsibility to “promote the general Welfare” as the U.S. Constitution states is supposed to do this. But, with few exceptions, it has not done a very effective job.

Structure of Inequality

For me, the most important part of the book is Part Three, “The Structure of Inequality.” In reading this section, I felt it was unfortunate that the Occupy Wall Street movement rose and fell before Piketty’s book was published. His work could have served as both intellectual support for Occupy’s warnings about the “One Percent” and an explanation of the harm that concentration of wealth is

doing to the United States and the industrialized world.

In fact, Piketty's research would have negated a common criticism of the naysayers who criticized Occupy Wall Street by saying that its message was not specific enough and was not backed up by data. In Part 3, Piketty furnishes both of those in spades.

He begins this section by repeating a recurrent message: the dislocations of 1914-45 only delayed and retarded the rise and domination of capital. Today, that march toward the patrimony of wealth is rampant again. (p. 237) This rise was not a natural one, a la Kuznets. Institutions and political factions played a prominent role in activating it.

Piketty next turns to the inequality in the distribution of capital, which he says is always more unequal than that of labor. (p. 244) He demonstrates this by summoning up another figure from his database: The top ten per cent of labor gets about 25 to 30 percent of total labor income, while the top ten percent of recipients of capital income gets about 50 percent. The bottom 50 percent of capital recipients gets almost nothing. For Piketty, this very high concentration of wealth is explained by the importance of inherited wealth.

Piketty illustrates this with a cogent example from Scandinavia. Sweden has a very high tax rate on wealthy incomes. Therefore, the top ten percent of capital earners get about 30 per cent of the total, per annum. But in the United States, which has all but eliminated the progressive tax rate (through lower tax rates on capital gains and various loopholes allowing the rich to shelter their wealth), that same 10 percent gets about more than twice as much, about 70 per cent. (p. 248)

As Piketty points out, except for Europe in 1910, that figure is the highest percentage rate he could find in his entire database. He makes a parallel observation about the distribution of labor income. In Scandinavia, from 1970-1990, the top 10 percent of workers received about 20 percent of total wages, while the bottom 50 percent got about 35 percent.

He compares this with the United States where the top 10 percent gets about almost twice as much, about 35 per cent of total income, whereas the bottom half gets about 25 percent. Piketty writes about these last figures that, income for labor in the U.S. "is about as unequally distributed as has ever been observed anywhere." (p. 256)

By getting further inside the numbers, the author makes an important distinction. The further one goes up in the top ten percent, the higher the concentration of wealth gets. The author explains this phenomenon: "The top

centile is a large enough group to exert a significant influence on both the social landscape and the political and economic order.” (p. 254)

In other words, economic hegemony leads to political and social hegemony. Since the interests of the top 1 percent do not necessarily coincide with the rest of the public, the policies that are later enacted because of this hegemony are not at all, in the best sense of the word, democratic. In fact, they are meant to be anti-democratic, benefiting only that elite which means to preserve its own power and status.

Educational Inequality

Perhaps the best example that Piketty uses in this regard comes about halfway through the book. Readers may recall that one of the most controversial appointments that President Reagan made was William Bennett as Secretary of Education. There is no doubt that the well organized conservative movement clearly supported this appointment, since in the week before his congressional hearings, several columns appeared in support of him, including a prominent one by George Will.

Once Bennett gained office he almost immediately said he supported the administration's efforts to curtail federal programs for college loans and grants. He also favored cutting the amount of loans and grants to those students who had lower incomes. This created a firestorm of controversy in Washington and in the press.

Many Democratic congressmen and senators assailed Bennett and the White House for these new policy proposals. First, they cited that the proposals would limit upward social mobility because the people who most needed sizeable grants and loans to attend the best colleges would not be able to afford to do so. Secondly, many thought by making these proposals for cuts, the social fabric of America would be damaged because education was not viewed as an expense but as an investment.

Bennett brushed aside these concerns by joking that the cuts would only necessitate students sacrificing their Fort Lauderdale spring vacations. From the prospective of several decades, however, Bennett's comedy was not so funny because it began a steady march toward putting college education outside the reach of many families of modest incomes and contributed to the heavy debt burdens that many young Americans were forced to assume in their pursuit of a college degree.

The loss of a college opportunity for many young Americans also coincided with the widening wage gap between those with college degrees and those without. (p.

306) This disparity increased just as the number of college graduates stopped growing, or at least slowed in growth. Piketty argues that the widening gap in wage inequality is at least partly due to the cutback in college investment, since many families could not find alternative ways to send their children on to higher education.

One belief that Piketty is steadfast about through the book is this: investment in higher education and training would allow broader segments of the public to advance upward and into the higher wage scales. It would also decrease the upper decile's share of both wages and total income. (p. 307)

Again, he uses Scandinavia as a point of comparison, writing that there "wage inequality is more moderate than elsewhere" and this is owed "in large part to the fact that their education system is relatively egalitarian and inclusive." (ibid) But he adds that the debate about the cost of education lacks an acceptable database to allow for an informed discussion.

Piketty also complains that the idea that the most prestigious colleges "tend to favor students from privileged social backgrounds" is an issue that should not be bypassed lightly because it is obvious that the students who graduate from those colleges have multiplied their chances of success and affluence by a large factor over those who graduate from public colleges with little name recognition.

An Unprecedented Gap

And again, Piketty brings up more evidence with his statistics to back up this belief. In Scandinavia, the top 10 percent owns about 50 percent of all capital. In Europe the top decile owns about 60 percent of all capital. However, in the United States, the top ten percent owns an astonishing 72 percent of all capital (See page 248), meaning that 90 percent of the public has only 28 percent of the financial assets.

If this trend continues in America by 2030 the top 1 percent would be earning about 34,000 euros per month, or about \$44, 000, while the bottom 50 percent about 800 euros a month or about \$1,100 (p. 257), making the wage inequality in America almost unprecedented, according to the available data.

An even wider inequality applies to the issue of net wealth or worth in America, with the poorest sector of society, the bottom 25 percent having little or no personal wealth, if not a negative net worth.

Piketty says the average net worth for the poorest half of the population is about 20,000 euros or about \$25,000, really only the equivalent of a few weeks or months to cover expenses like rent, car payments and maybe a small mortgage.

(p. 259) By contrast, the top ten per cent has an average wealth of 1.2 million euros or about \$1.6 million each and the top one percent is worth about 5 million euros or about \$6.5 million. (ibid)

This imbalance is worse in the United States than it is anywhere in the advanced world, with the U.S. conditions actually approaching the conditions in Europe in the fin de siècle age. According to Piketty's database, at that time the top ten percent owned about 90 percent of all wealth within a nation's borders. (p. 261) That means the middle class owned about 5 percent, as did the lower classes. In effect, there really was no middle class as Americans came to understand the concept in the post-World War II era. This extreme imbalance resembled the economic structure of France on the eve of the revolution in 1789.

So, although the construction of a middle class was an important historical development in the Twentieth Century, the author said all this large group had attained by the early Twenty-first Century was about a third of the wealth in Europe and a quarter in the United States. (ibid)

To be specific, the middle class has four times as many people as the top decile, but depending on the country only a half to a third as much wealth. The author's argument is that this split would be even wider except that, by the end of World War II, the upper class had lost about 50 percent of its assets. (p. 262)

Setting a Dubious Record

From there, Piketty depicts the combination of wealth between capital and income. (See graph on page 249) In this category, again the U.S. leads the way in inequality. Piketty projects that if this trend continues the United States will set a record for combined wealth inequality by 2030 when the top decile would "claim about 60 percent of the national income, while the bottom half would get barely 15 percent." (p. 264)

How is such a state of affairs even possible in a country that once prided itself in its Great American Middle Class? The author proffers two reasons: first the sheer weight and influence of inherited wealth passed on from generation to generation; and second, something new, the rise of the super managerial class.

The first point is easy to comprehend, especially given Republican assaults on the "death tax," i.e., the inheritance tax that was designed by earlier generations of American political leaders to prevent the consolidation of an American aristocracy. The second is a fairly new phenomenon, the rise of professions like hedge fund managers and the extraordinary salaries and stock

options granted by boards of directors to corporate managers, whether CEOs or CFOs or presidents of the company or vice-presidents.

This uniquely American phenomenon is, in Piketty's database, unprecedented. In fact, he is worth quoting on the subject of labor inequality as exhibited by this new class of super wealthy managers:

"What primarily characterizes the United States at the moment is a record level of inequality of income from labor, probably higher than in any other society at any time in the past, anywhere in the world, including societies in which skill disparities were extremely large." (p. 265)

This rise in this super-manager class has made a real difference in the composition of the wealth of the top ten percent. Prior to this, the largest amount of wealth in the top decile was made up of capital assets, i.e., income on property and financial assets. With the rise of this new class of millionaires, earned income has become a much stronger factor in the composition of this wealth than ever before.

In fact, taking the example of the top ten percent in France, Piketty shows that for the lesser nine percent, income from labor exceeds income from capital. (p. 277) The author maintains that this is a universal rule in the advanced world. The higher one goes in the top ten percent the more income is derived from capital than from labor. (p. 280)

Here, Paketty makes an overdue admission about his database. He and his colleagues have chiefly worked from tax records. But he now admits that in the realm of evaluating capital assets of the richest Americans, these records may be underestimating things. Some of these citizens may break the law and simply not report all they have in order to lower their tax bill. Some will legally exempt some of their income by finding loopholes, including investments in overseas countries which are easier to hide than in America. (p. 282)

The author adds that another shortcoming in the data base is that tax returns do not tell you the specific origin of capital, nor do they reveal inheritances. Because of all these limitations, the author argues for more and stricter accounting laws so that more specifics about wealth can be revealed and studied.

Yet, in this mixed category of combining capital with income, the author explains that the overall pattern remains the same. The Twentieth Century began with a very high concentration of wealth in the upper classes, which was largely dissipated by the two world wars and the 1929 crash. But it began to rebuild itself in the 1970s and 1980s. (ibid)

This is the end of Part One of DiEugenio's examination of Piketty's book.

Jim DiEugenio is a researcher and writer on the assassination of President John F. Kennedy and other mysteries of that era. His most recent book is *Reclaiming Parkland*.

Hitler's Shadow Reaches toward Today

From the Archive: The key role of neo-Nazis in Ukraine's U.S.-backed coup is denied by the mainstream U.S. press, which can't believe the U.S. government would collaborate with such unsavory characters, but that isn't the real history, as Robert Parry reported in 2010.

By Robert Parry (Originally published on Dec. 17, 2010)

The U.S. government protected Nazi war criminal Klaus Barbie in the years after World War II and later unleashed the infamous Butcher of Lyon on South America by aiding his escape from French war-crimes prosecutors, according to a report issued by the National Archives in 2010.

The report, entitled "Hitler's Shadow," concentrates on the decisions by the U.S. Army's Counterintelligence Corps to use Barbie and other ex-Nazis for early Cold War operations, but other work by investigative journalists and government investigators has shown how Barbie's continued allegiance to Nazi ideology contributed to the spread of right-wing extremism in Latin America.

With his skills as an intelligence operative and his expertise in state terror, Barbie helped shape the particularly vicious style of anti-communism that dominated South America for most of the Cold War. He also played a role in building a conduit for drug proceeds to fund right-wing paramilitary operations, including Ronald Reagan's beloved Nicaraguan Contra rebels.

In 1980, Barbie used his perch in Bolivian intelligence to organize an alliance of military leaders and cocaine barons to overthrow Bolivia's democratically elected leftist government in a bloody coup. Though fitting with Washington's distrust of left-wing populist governments in South America, the so-called Cocaine Coup had other long-term consequences for the United States.

Bolivia's coup regime ensured a reliable flow of coca to Colombia's Medellin cartel, which quickly grew into a sophisticated conglomerate for smuggling cocaine into the United States. Some of those drug profits then went to finance right-wing paramilitary operations, including the CIA-backed Contras, according to other U.S. government investigations.

Barbie reportedly collaborated, too, with representatives of Rev. Sun Myung Moon's Unification Church as they worked with Bolivia's Cocaine Coup regime to organize anti-communist operations in South America. By then, the region had become a center for Moon's global money-laundering operations. In 1982, Moon began pouring hundreds of millions of his mysterious dollars into the right-wing Washington Times newspaper to influence U.S. politics.

Eventually, as Bolivia's corrupt Cocaine Coup government crumbled and Barbie's identity became well known, French authorities finally secured Barbie's return to France to face a war-crimes trial in 1983. (He died in 1991.)

The Butcher of Lyon's role in these South American anti-communist activities caused brief embarrassment for Moon's church and some right-wing Americans. But the Nazi collaboration didn't draw much attention from the U.S. news media, which was already shying away from critical reporting on the Reagan administration's unsavory alliances in Central and South America.

A Long Continuum

Indeed, the Right's growing dominance of Washington opinion circles can be viewed as a continuum dating back to those days right after World War II, when U.S. priorities switched quickly from prosecuting Axis war criminals to seeking their help in crushing leftist political influence in Western Europe and Asia.

Suddenly, U.S. intelligence agencies were freeing Nazi and Japanese war criminals from prison and exploiting their talents to neutralize labor unions, student groups and other left-wing organizations.

Though the National Archives report deals with ex-Nazis in Europe, a similar program was underway in Japan where war criminals such as right-wing *yakuza* gangsters Yoshio Kodama and Ryoichi Sasakawa were freed and allowed to become important political figures in Japan and later internationally by supporting a global crusade against communism.

In the 1960s, Kodama and Sasakawa joined with Rev. Moon and two right-wing dictators, Taiwan's Chiang Kai-shek and South Korea's Park Chung Hee, to create the World Anti-Communist League (WACL), which also brought in right-wing leaders from Latin America and Europe, including ex-Nazis and neo-Nazis, according to authors Scott and Jon Lee Anderson in their landmark 1986 book, *Inside the League*.

So, with the Cocaine Coup in 1980, Barbie not only closed the circle, bringing together death-squad commanders, ex-Nazis, neo-Nazis and various sociopaths from around the globe, but he helped ensure that drug proceeds would be available to fund right-wing causes in the future.

"Hitler's Shadow," in effect, tells the first chapter of this right-wing restoration as U.S. intelligence agencies turned to former Nazi officials and SS officers to counter the perceived greater threat from the Soviet Union and Communist groups in Europe.

"Gestapo officers, who also held ranks in the SS, were in the U.S. Army Counterintelligence Corps's automatic arrest category after the war," the report said. "Later, CIC used former Gestapo officers to garner useful intelligence for the postwar period on everything from German right-wing movements to underground communist organizations. Intelligence officers often overlooked the significant role Gestapo officers played in the murder of Jews, POWs, and the political enemies of the Nazis."

The report notes that "approximately 1,200 newly released files relate to the penetration of German Communist activities and specifically to 'Project Happiness,' the CIC's codename for counterintelligence operations against the KPD," the German Communist Party.

Though Barbie notorious for personally torturing French partisans during the war may be the best known ex-Gestapo officer recruited by the CIC, others had similar histories.

For instance, Anton Mahler was the chief interrogator of Hans Scholl, a leader of the White Rose, a Munich-based student organization that secretly passed out leaflets urging Adolf Hitler's overthrow and decrying German apathy in the face of Hitler's crimes. Hans and his sister Sophie Scholl were convicted of high treason and beheaded in February 1943.

Mahler also served in Einsatzgruppe B in occupied Belarus as the group slaughtered more than 45,000 people, most of them Jews, the report said. Nevertheless, CIC deployed Mahler as an informant starting in February 1949 and soon made him a full-time employee.

Regarding Barbie, the report builds on a 1983 investigation by a Justice Department investigator who confirmed suspicions that U.S. intelligence had worked with and protected this hunted war criminal who was accused of executing 4,000 people and shipping 7,000 Jews to concentration camps.

"In the spring of 1947 a CIC agent named Robert S. Taylor from CIC Region IV (Munich) recruited Klaus Barbie, the one-time Gestapo Chief of Lyon (194244)," the new report said. "Barbie helped run a counterintelligence net named 'BÃ¼ro Petersen' which monitored French intelligence.

"In 1948 Barbie helped the CIC locate former Gestapo informants. In 1949, he penetrated German Communist Party (KPD) activities in CIC Region XII (Augsburg).

He continued to work for the CIC in return for protection against French war crimes charges.”

Ratline to Bolivia

The story of Barbie’s escape to South America with the CIC’s collaboration was addressed in the 1983 report by Allan A. Ryan Jr., head of the Justice Department’s Nazi-hunting Office of Special Investigations. Ryan’s 218-page report said that in 1951, the CIC helped Barbie evade French authorities and flee over a “ratline” to Bolivia.

Ryan said that a half dozen CIC officers participated in the cover-up of Barbie’s identity and excused their actions by claiming that the French arrest of Barbie could jeopardize the security of other CIC operations. To get Barbie to Bolivia, the CIC officers used a ratline run by a Croatian priest, Father Krunoslav Draganovich, Ryan wrote.

Ryan said the Central Intelligence Agency later rebuffed suggestions that Barbie be reactivated in the 1960s, but Barbie using the name Altmann held an official position with a state-owned shipping company that allowed him to move freely and even to travel to the United States. [For more on Ryan’s report, see Time magazine, Aug. 29, 1983]

More significantly, Barbie became a figure in Bolivian intelligence and used that perch to coordinate with other right-wing intelligence services around the continent that were engaged in Operation Condor, a program of assassinating suspected subversives and other dissidents.

In the 1970s, these intelligence agencies had teamed up to give their assassination squads regional and even global reach, including the murder of Chilean diplomat Orlando Letelier and an American co-worker on the streets of Washington in 1976.

For the Cocaine Coup in 1980, Barbie recruited Argentina’s feared intelligence service along with young neo-Nazis from Europe. The World Anti-Communist League arranged support from Moon and other Asian rightists.

For years, Moon had been sinking down roots in South America, especially in Uruguay after right-wing military dictators seized power there in 1973. Moon also cultivated close ties with dictators in Argentina, Paraguay and Chile, reportedly ingratiating himself with the juntas by helping the regimes buy weapons and by channeling money to allied right-wing organizations.

“Relationships nurtured with right-wing Latin Americans in the [World Anti-Communist] League led to acceptance of the [Unification] Church’s political and

propaganda operations throughout Latin America," the Andersons wrote in *Inside the League*.

"As an international money laundry, the Church tapped into the capital flight havens of Latin America. Escaping the scrutiny of American and European investigators, the Church could now funnel money into banks in Honduras, Uruguay and Brazil, where official oversight was lax or nonexistent."

Moon expanded his network of friends when Barbie helped pull together a right-wing alliance of Bolivian military officers and drug dealers for the Cocaine Coup. WACL associates, such as Alfredo Candia, coordinated the arrival of some of the paramilitary operatives from Argentina and Europe who would help out in the violent putsch.

Barbie, then better known as Altmann, was in charge of drawing up plans for the coup and coordinating with Argentine intelligence. One of the first Argentine intelligence officers to arrive was Lt. Alfred Mario Mingolla.

"Before our departure, we received a dossier on" Barbie, Mingolla later told German investigative reporter Kai Hermann. "There it stated that he was of great use to Argentina because he played an important role in all of Latin America in the fight against communism. From the dossier, it was also clear that Altmann worked for the Americans."

The Cocaine Motive

As the coup took shape, Bolivian Col. Luis Arce-Gomez, the cousin of cocaine kingpin Roberto Suarez, also brought onboard neo-fascist terrorists such as Italian Stefano della Chiaie who had been working with the Argentine death squads. [See *Cocaine Politics* by Peter Dale Scott and Jonathan Marshall]

Still a committed fascist, Barbie started a secret lodge, called Thule. During meetings, he lectured to his followers underneath swastikas by candlelight.

On June 17, 1980, in nearly public planning for the coup, six of Bolivia's biggest traffickers met with the military conspirators to hammer out a financial deal for future protection of the cocaine trade. A La Paz businessman said the coming putsch should be called the "Cocaine Coup," a name that would stick. [See *Cocaine Politics*]

Less than three weeks later, on July 6 in Buenos Aires, Argentina, U.S. undercover drug enforcement agent Michael Levine said he met with a Bolivian trafficker named Hugo Hurtado-Candia. Over drinks, Hurtado outlined plans for the "new government" in which his niece Sonia Atala, a major cocaine supplier, will "be in a very strong position." [See Levine's *Big White Lie*]

On July 17, the Cocaine Coup began, spearheaded by Barbie and his neo-fascist goon squad which was dubbed the "FiancÃ©s of Death."

"The masked thugs were not Bolivians; they spoke Spanish with German, French and Italian accents," Levine wrote. "Their uniforms bore neither national identification nor any markings, although many of them wore Nazi swastika armbands and insignias."

The slaughter was fierce. When the putschists stormed the national labor headquarters, they wounded labor leader Marcelo Quiroga, who had led the effort to indict former military dictator Hugo Banzer on drug and corruption charges. Quiroga "was dragged off to police headquarters to be the object of a game played by some of the torture experts imported from Argentina's dreaded Mechanic School of the Navy," Levine wrote.

"These experts applied their 'science' to Quiroga as a lesson to the Bolivians, who were a little backward in such matters. They kept Quiroga alive and suffering for hours. His castrated, tortured body was found days later in a place called 'The valley of the Moon' in southern La Paz."

To DEA agent Levine back in Buenos Aires, it was soon clear "that the primary goal of the revolution was the protection and control of Bolivia's cocaine industry. All major drug traffickers in prison were released, after which they joined the neo-Nazis in their rampage.

"Government buildings were invaded and trafficker files were either carried off or burned. Government employees were tortured and shot, the women tied and repeatedly raped by the paramilitaries and the freed traffickers."

The fascists celebrated with swastikas and shouts of "Heil Hitler!" Hermann reported. Col. Arce-Gomez, a central-casting image of a bemedaled, pot-bellied Latin dictator, grabbed broad powers as Interior Minister. Gen. Luis Garcia Meza was installed as Bolivia's new president.

The victory put into power a right-wing military dictatorship indebted to the drug lords. Bolivia became South America's first narco-state.

Moon's Throne

One of the first well-wishers arriving in La Paz to congratulate the new government was Moon's top lieutenant (and former KCIA officer) Bo Hi Pak. The Moon organization published a photo of Pak meeting with the new strongman, General Garcia Meza. After the visit to the mountainous capital, Pak declared, "I have erected a throne for Father Moon in the world's highest city."

According to later Bolivian government and newspaper reports, a Moon representative invested about \$4 million in preparations for the coup. Bolivia's WACL representatives also played key roles, and CAUSA, one of Moon's anti-communist organizations, listed as members nearly all the leading Bolivian coup-makers.

Soon, Colonel Luis Arce-Gomez, a coup organizer and the cousin of cocaine kingpin Roberto Suarez, went into partnership with big narco-traffickers, including Cuban-American smugglers based in Miami. Nazi war criminal Barbie and his young neo-fascist followers found new work protecting Bolivia's major cocaine barons and transporting drugs to the Colombian border.

"The paramilitary units conceived by Barbie as a new type of SS sold themselves to the cocaine barons," German journalist Hermann wrote. "The attraction of fast money in the cocaine trade was stronger than the idea of a national socialist revolution in Latin America."

A month after the Cocaine Coup, General Garcia Meza participated in the Fourth Congress of the Latin American Anti-Communist Confederation, an arm of the World Anti-Communist League. Also attending that Fourth Congress was WACL president Woo Jae Sung, a leading Moon disciple.

As the drug lords consolidated their power in Bolivia, the Moon organization expanded its presence, too. Hermann reported that in early 1981, war criminal Barbie and Moon leader Thomas Ward were seen together in apparent prayer.

On May 31, 1981, Moon representatives sponsored a CAUSA reception at the Sheraton Hotel's Hall of Freedom in La Paz. Moon's lieutenant Bo Hi Pak and Bolivian strongman Garcia Meza led a prayer for President Ronald Reagan's recovery from an assassination attempt.

In his speech, Bo Hi Pak declared, "God had chosen the Bolivian people in the heart of South America as the ones to conquer communism."

Flush with Cash

In the early 1980s, cocaine kingpin Suarez his coffers now overflowing with cash invested more than \$30 million in various right-wing paramilitary operations, including the Contra forces in Central America, according to U.S. Senate testimony in 1987 by an Argentine intelligence officer, Leonardo Sanchez-Reisse.

Sanchez-Reisse testified that the Suarez drug money was laundered through front companies in Miami before going to Central America. There, Argentine intelligence officers, including Sanchez-Reisse and other veterans of the Cocaine Coup, trained the fledgling Contra forces.

But by late 1981, the cocaine taint of Bolivia's military junta was so deep and the corruption so pervasive that U.S.-Bolivian relations were stretched to the breaking point. "The Moon sect disappeared overnight from Bolivia as clandestinely as they had arrived," Hermann reported.

The Cocaine Coup leaders soon found themselves on the run, too. Interior Minister Arce-Gomez was extradited to Miami and was sentenced to 30 years in prison for drug trafficking. Drug lord Suarez got a 15-year prison term. General Garcia Meza became a fugitive from a 30-year sentence imposed on him in Bolivia for abuse of power, corruption and murder.

SS veteran Barbie was returned to France to face a life sentence for war crimes. He died in 1991 at the age of 77.

But Moon's organization suffered few negative repercussions from its role in the Cocaine Coup. By the early 1980s, flush with seemingly unlimited funds, Moon had moved on to promoting himself as a key friend of the new Republican administration in Washington.

A guest at Reagan's First Inauguration, Moon made his organization useful to the new President and to Vice President George H.W. Bush, who would later become a paid speaker for Moon's organization. Where Moon got his cash was not a mystery that American conservatives were eager to solve.

"Some Moonie-watchers even believe that some of the business enterprises are actually covers for drug trafficking," wrote Scott and Jon Lee Anderson.

While Moon's representatives have refused to detail how they've sustained their far-flung activities including many businesses that insiders say lose money Moon's spokesmen have denied recurring allegations about profiteering off illegal trafficking in weapons and drugs.

In a typical response to a gun-running question by the Argentine newspaper, *Clarín*, Moon's representative Ricardo DeSena responded, "I deny categorically these accusations and also the barbarities that are said about drugs and brainwashing." [*Clarín*, July 7, 1996]

Nevertheless, Moon's organization did its best to disrupt the work of U.S. investigative reporters and government investigators looking into the connections between the drug trade and right-wing paramilitary operations such as the Nicaraguan Contras.

In the mid-1980s, for instance, when journalists and congressional investigators began probing the evidence of Contra-connected drug trafficking, they came under attack from Moon's Washington Times. An Associated Press story that I co-wrote

with Brian Barger about a Miami-based federal probe into gun- and drug-running by the Contras was disparaged in an April 11, 1986, front-page Washington Times article with the headline: "Story on [contra] drug smuggling denounced as political ploy."

When Sen. John Kerry, D-Massachusetts, uncovered additional evidence of Contra-drug trafficking, the Washington Times denounced him, too. The newspaper published articles depicting Kerry's probe as a wasteful political witch hunt. "Kerry's anti-contra efforts extensive, expensive, in vain," declared the headline of one Times article on Aug. 13, 1986.

Despite the attacks, Kerry's Contra-drug investigation eventually concluded that a number of Contra units were implicated in the cocaine trade.

"It is clear that individuals who provided support for the contras were involved in drug trafficking, the supply network of the contras was used by drug trafficking organizations, and elements of the contras themselves knowingly received financial and material assistance from drug traffickers," Kerry's investigation stated in a report issued April 13, 1989.

Mysterious Contra Backer

In 1998, CIA's Inspector General Frederick Hitz confirmed the earlier allegations of extensive cocaine trafficking by the Contras, including significant ties to Bolivia's traffickers. Hitz also cited a partially redacted document referring to a "religious" group cooperating with the Contra-cocaine trade.

"There are indications of links between [a U.S. religious organization] and two Nicaraguan counter-revolutionary groups," read an Oct. 22, 1982, cable from the office of the CIA's Directorate of Operations. "These links involve an exchange in [the United States] of narcotics for arms."

In 1982, the CIA quickly shut down any further reporting on this drug deal, citing the role of U.S. citizens. "In light of the apparent participation of U.S. persons throughout, agree you should not pursue the matter further," CIA headquarters wrote on Nov. 3, 1982.

During the Inspector General's investigation, Hitz conducted a follow-up interview, with Contra-connected drug trafficker Renato Pena, who described the redacted U.S. religious organization as a Contra "political ally that provided only humanitarian aid to Nicaraguan refugees and logistical support for contra-related rallies, such as printing services and portable stages."

Moon's religious-political groups, some based in the United States, were

extremely active supporting the Contras in the early 1980s, suggesting that Moon's Washington Times might have had more than an ideological reason to attack investigators exploring Contra drug trafficking.

To this day, the Washington Times remains a reliably right-wing voice in the U.S. capital. [Moon died on Sept. 3, 2012.]

Still, the CIA's shielding of the name of that "religious organization" and similar protective behavior represented a continuation of a long-standing pattern in which U.S. intelligence covered up for right-wing and neo-Nazi criminality, a dark history that began with the likes of Klaus Barbie and has extended "Hitler's Shadow" to modern times.

Investigative reporter Robert Parry broke many of the Iran-Contra stories for The Associated Press and Newsweek in the 1980s. You can buy his new book, *America's Stolen Narrative*, either in [print here](#) or as an e-book (from [Amazon](#) and [barnesandnoble.com](#)). For a limited time, you also can order Robert Parry's trilogy on the Bush Family and its connections to various right-wing operatives for only \$34. The trilogy includes *America's Stolen Narrative*. For details on this offer, [click here](#).

Get a Rare Look into a Dark History

From Editor Robert Parry: Our thank-you gift for donations of \$100 or more to our spring fund drive is my book, *America's Stolen Narrative*, detailing new evidence on the 1980 Reagan campaign's secret contacts with Iran, plus a DVD of a "Frontline" documentary that I co-wrote featuring many of the same characters.

Since much of what we now know about this important turning point in American history has been ignored by the mainstream press despite a wealth of proof this package gives you the unique opportunity to see the evidence of the Republican skullduggery and the faces of the people who pulled the strings on our electoral process to make sure Ronald Reagan won.

America's Stolen Narrative also reveals long-hidden records that I discovered in the National Archives exposing the immediate historical precedent, Richard Nixon's sabotage of Vietnam War peace talks to ensure his election over Hubert Humphrey in 1968.

To get a signed copy of the book and the DVD, "Election Held Hostage," just make your donation by [credit card online](#) (we accept Visa, Mastercard or Discover) or by [mailing a check](#) to Consortium for Independent Journalism (CIJ); 2200 Wilson

Blvd., Suite 102-231; Arlington VA 22201. For readers wanting to use PayPal, you can address contributions to our account, which is named after our e-mail address: "consortnew @ aol.com". (Since we are a 501-c-3 non-profit, your donations may be tax-deductible.)

You can also qualify for the thank-you gift by setting up a recurring donation that will total \$100 or more over the next year.

Once you make the donation, **send us a follow-up e-mail** to consortnew@aol.com with your precise mailing instructions. If you prefer a different one of my books to accompany the DVD such as *Lost History, Secrecy & Privilege* or *Neck Deep* (co-authored with Sam and Nat Parry) just say so in the e-mail. We'll make the change.

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To get this special offer, just go to Consortiumnews.com's "Donate" button and make a \$34 "donation" using Visa, Mastercard or Discover. We will read a "donation" of that amount as an order for the trilogy. If your mailing address is the same as your credit card billing address, we will ship the books to that address. If your mailing address is different, just send us an e-mail at consortnew@aol.com and we will make the adjustment.

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Another way to help Consortiumnews.com survive is to buy one of my last four books through the Consortiumnews' Web site or my latest book, *America's Stolen Narrative*, through Amazon.com, either in paper or the e-book version. A portion of the sales will go to support our independent journalism.

And, we can now accept donations of stock or other equities, which I'm told can offer a tax advantage to donors if the stock has appreciated in value since it was purchased. (Our 18-year-old journalism project is recognized by the IRS as a 501-c-3 non-profit, meaning that contributions may be tax-deductible.)

If this stock-donation option appeals to you, I suggest you discuss it with your broker and then contact me at consortnew@aol.com for specific instructions on how to transfer the stock. Or you can write to us at Consortium for Independent Journalism (CIJ); 2200 Wilson Blvd., Suite 102-231; Arlington VA 22201.

Again, thanks for your support and for making our 18-plus years of honest journalism possible.

Robert Parry is a longtime investigative reporter who broke many of the Iran-Contra stories for the Associated Press and Newsweek in the 1980s. He founded Consortiumnews.com in 1995 to create an outlet for well-reported journalism that was being squeezed out of an increasingly trivialized U.S. news media.

Reagan-Bush Ties to Iran-Hostage Crisis

Exclusive: The Senate wants to block Iran's new UN ambassador because he was linked to the Iran hostage crisis 35 years ago, but that standard would strip honors from Ronald Reagan and George H.W. Bush, implicated in extending the hostage crisis to win the 1980 election, reports Robert Parry.

By Robert Parry

U.S. government officials are in high dudgeon again this time over Iran's audacity in naming an ambassador to the United Nations who allegedly played a minor role in the 1979-81 crisis in which 52 Americans were held hostage for 444 days in Iran. But the same U.S. officials ignore the now overwhelming evidence that Ronald Reagan and George H.W. Bush helped extend the hostages' suffering to gain an edge in the 1980 election.

The double standard getting worked up over the allegations about Iranian Ambassador Hamid Aboutalebi and going silent over the evidence implicating Reagan and Bush is just the latest in [a long series of examples of the U.S. government's hypocrisy.](#)

Indeed, one might think that the near treasonous behavior of Reagan and Bush was more objectionable than whatever Aboutalebi did as a young man in Tehran. He has denied direct participation in the seizure of the U.S. Embassy in Tehran in 1979 though he apparently provided some assistance with translations and negotiations. Aboutalebi is now a close adviser to Iran's President Hassan Rouhani and has served as Iranian ambassador to Belgium, Italy, Australia and the European Union.

It is rare for the United States to block an ambassador to the United Nations, which is located in New York City, but Aboutalebi's selection has become the latest excuse for congressional hardliners to throw a wrench into negotiations aimed at limiting but not eliminating Iran's nuclear program. On Monday, the U.S. Senate passed a bill sponsored by Sen. Ted Cruz, R-Texas, to deny Aboutalebi a visa for entering the United States. Following the Senate's lead, the Obama administration also has criticized the nomination.

The irony, however, is that Cruz and pretty much every leading Republican model themselves after President Reagan whose election in 1980 now appears to have been aided by his campaign's behind-the-scenes maneuvering to frustrate President Jimmy Carter's negotiations to gain the hostages' freedom. Those talks broke down in October 1980 and the hostages were only freed after Reagan was inaugurated on Jan. 20, 1981.

Reagan's purported "October Surprise" operation to torpedo Carter's hoped-for success in getting the hostages out before the Nov. 4, 1980, election would have made the Republican icon a much bigger villain in the hostages' ordeal than Aboutalebi. George H.W. Bush, who was Reagan's running mate in 1980, was also implicated in the sabotage operation.

Mounting Evidence

The evidence of this Republican skullduggery has been building for more than three decades, with the 1980 contacts between the Reagan team and radical Iranians appearing to be the opening chapter of the Iran-Contra saga of 1985-86, which also involved secret contacts and the trading of arms for hostages.

Both operations also were shielded by aggressive Republican cover-ups that extended from 1986 to 1993, although congressional and government investigators did a much better job in excavating the Iran-Contra secrets than they did with the October Surprise case. It wasn't until last June that Rep. Lee Hamilton, D-Indiana, who headed both congressional inquiries, admitted that he had been misled about key October Surprise evidence.

In a phone interview, the retired Indiana Democrat responded to a document that I had e-mailed him revealing that in 1991 a deputy White House counsel working for then-President George H.W. Bush was notified by the State Department that Reagan's campaign director William Casey had taken a trip to Madrid in relation to the so-called October Surprise issue.

Casey's alleged trip to Madrid in 1980 had been at the center of Hamilton's investigation in 1991-92 into whether Reagan's campaign went behind Carter's back to frustrate his hostage negotiations. In early 1993, Hamilton's task force

dismissed the allegations after concluding that Casey had not traveled to Madrid.

“We found no evidence to confirm Casey’s trip to Madrid,” Hamilton told me. “We couldn’t show that. The [Bush-41] White House did not notify us that he did make the trip. Should they have passed that on to us? They should have because they knew we were interested in that.”

Asked if knowledge that Casey had traveled to Madrid might have changed the task force’s dismissive October Surprise conclusion, Hamilton said yes, because the question of the Madrid trip was key to the task force’s investigation. “If the White House knew that Casey was there, they certainly should have shared it with us,” Hamilton said, adding that “you have to rely on people” in authority to comply with information requests.

The document revealing White House knowledge of Casey’s Madrid trip was among records released to me by the archivists at the George H.W. Bush library in College Station, Texas. The U.S. Embassy’s confirmation of Casey’s trip was passed along by State Department legal adviser Edwin D. Williamson to Associate White House Counsel Chester Paul Beach Jr. in early November 1991, just as the October Surprise inquiry was taking shape.

Williamson said that among the State Department “material potentially relevant to the October Surprise allegations [was] a cable from the Madrid embassy indicating that Bill Casey was in town, for purposes unknown,” Beach noted in a “memorandum for record” dated Nov. 4, 1991.

Organizing the Cover-up

Two days later, on Nov. 6, Beach’s boss, White House counsel C. Boyden Gray, arranged an inter-agency strategy session and explained the need to contain the congressional investigation into the October Surprise case. The explicit goal was to ensure the scandal would not hurt President Bush’s reelection hopes in 1992.

At the meeting, Gray laid out how to thwart the October Surprise inquiry, which was seen as a dangerous expansion of the Iran-Contra investigation, which Rep. Hamilton had co-chaired when the scandal was reviewed by Congress in 1987. A parallel criminal investigation by special prosecutor Lawrence Walsh was continuing in 1991 and some of his investigators were coming to suspect that the origins of Iran-Contra contacts with Iran traced back to Reagan’s 1980 campaign.

Up to that point, Iran-Contra had focused on illicit arms-for-hostage sales to Iran that President Reagan authorized in 1985-86. However, some October Surprise witnesses were claiming that the framework for Reagan’s secret arms shipments to

Iran, usually through Israel, took shape during the 1980 campaign.

The prospect that the two sets of allegations would merge into a single narrative represented a grave threat to George H.W. Bush's reelection campaign. As assistant White House counsel Ronald vonLembke, put it, the White House goal in 1991 was to "kill/spike this story." To achieve that result, the Republicans coordinated the counter-offensive through Gray's office under the supervision of associate counsel Janet Rehnquist, the daughter of the late Chief Justice William Rehnquist.

Gray explained the stakes at the White House strategy session. "Whatever form they ultimately take, the House and Senate 'October Surprise' investigations, like Iran-Contra, will involve interagency concerns and be of special interest to the President," Gray declared, according to minutes. [Emphasis in original.]

Among "touchstones" cited by Gray were "No Surprises to the White House, and Maintain Ability to Respond to Leaks in Real Time. This is Partisan." White House "talking points" on the October Surprise investigation urged restricting the inquiry to 1979-80 and imposing strict time limits for issuing any findings, according to the document said.

But the key to understanding the October Surprise case was that it appeared to be a prequel to the Iran-Contra scandal, part of the same storyline beginning with the 1980 crisis over 52 American hostages held in Iran, continuing through their release immediately after Ronald Reagan's inauguration on Jan. 20, 1981, then followed by mysterious U.S. government approval of secret arms shipments to Iran via Israel in 1981, and ultimately morphing into the Iran-Contra Affair of more arms-for-hostage deals with Iran until that scandal exploded in 1986. [For more on the scandal and cover-up, see Robert Parry's America's Stolen Narrative.]

Getting Some Help

Though Beach's memo in November 1991 revealed the Bush-41 administration's knowledge of the Casey trip to Madrid in 1980, the Republican cover-up was aided immensely that month by Newsweek and The New Republic, which published matching stories on their covers claiming to have debunked the October Surprise allegations by proving that Casey could not have made the trip to Madrid.

Despite knowing the falsity of those magazine articles, Bush's White House made no effort to correct the record or to inform congressional investigators. Yet, even without Beach's memo, there was solid evidence at the time disproving the Newsweek/New Republic debunking articles. Both magazines had sloppily misread attendance records at a London historical conference that Casey had attended on

July 28, 1980, the time frame when Iranian businessman (and CIA agent) Jamshid Hashemi had placed Casey in Madrid for a secret meeting with Iranian emissary Mehdi Karrubi.

The two magazines insisted that the attendance records showed Casey in London for a morning session of the conference, thus negating the possibility that he could have made a side trip to Madrid. But the magazines had failed to do the necessary follow-up interviews, which would have revealed that Casey was not at the morning session on July 28. He didn't arrive until that afternoon, leaving the "window" open for Hashemi's account.

At PBS "Frontline," where I was involved in the October Surprise investigation, we talked to Americans and others who had participated in the London conference. Most significantly, we interviewed historian Robert Dallek who gave that morning's presentation to a small gathering of attendees sitting in a conference room at the British Imperial War Museum.

Dallek said he had been excited to learn that Casey, who was running Reagan's presidential campaign, would be there. So, Dallek looked for Casey, only to be disappointed that Casey was a no-show. Other Americans also recalled Casey arriving later and the records actually indicate Casey showing up for the afternoon session.

In other words, the high-profile Newsweek-New Republic debunking of the October Surprise story had itself been debunked. However, typical of the arrogance of those publications and our inability to draw attention to their major screw-up the magazines never acknowledged their gross error.

Worse Than a Mistake

I later learned that the journalistic malfeasance at Newsweek was even worse than sloppiness. Journalist Craig Unger, who had been hired by Newsweek to work on the October Surprise story, told me that he had spotted the misreading of the attendance records before Newsweek published its article. Unger said he alerted the investigative team, which was personally headed by executive editor Maynard Parker.

"They told me, essentially, to fuck off," Unger said.

During my years at Newsweek, from 1987-90, Parker had been my chief nemesis. He was considered close to prominent neocons, including Iran-Contra figure Elliott Abrams, and to Establishment Republicans, such as former Secretary of State Henry Kissinger. Parker also was a member of banker David Rockefeller's Council on Foreign Relations, and viewed the Iran-Contra scandal as something best shut down quickly. Jumping to a false conclusion that would protect his influential

friends would fit perfectly with what I knew of Parker.

The false articles in Newsweek and The New Republic gave the White House cover-up a key advantage: Washington's conventional wisdom crowd now assumed that the October Surprise allegations were bogus. All that was necessary was to make sure no hard evidence to the contrary, such as the U.S. Embassy's confirmation of a mysterious Casey trip to Madrid, reached the congressional investigation.

A big part of the Bush-41 cover-up was to run out the clock on Hamilton's inquiry, which was only authorized through the end of the congressional session in early January 1993. Delays of document production and evasion of a subpoena would prove crucial.

For instance, on May 14, 1992, a CIA official ran proposed language past associate White House counsel Janet Rehnquist from then-CIA Director Robert Gates regarding the agency's level of cooperation with Congress. By that point, the CIA, under Gates, was already months into a pattern of foot-dragging on congressional document requests.

Bush had put Gates, who was also implicated in the October Surprise case, at the CIA's helm in fall 1991, meaning that Gates was well-positioned to stymie congressional requests for sensitive information about secret initiatives involving Bush, Gates and Donald Gregg, another CIA veteran who was linked to the scandal.

The records at the Bush library revealed that Gates and Gregg, indeed, were targets of the congressional October Surprise probe. On May 26, 1992, Rep. Hamilton wrote to the CIA asking for records regarding the whereabouts of Gregg and Gates from Jan. 1, 1980, through Jan. 31, 1981, including travel plans and leaves of absence.

The persistent document-production delays finally drew a complaint from Lawrence Barcella, chief counsel to the House task force who wrote to the CIA on June 9, 1992, that the agency had not been responsive to three requests on Sept. 20, 1991; April 20, 1992; and May 26, 1992.

A History of Lies

Gregg and Gates also were implicated in the broader the Iran-Contra scandal. Both were suspected of lying about their knowledge of secret sales of military hardware to Iran and clandestine delivery of weapons to Contra rebels in Nicaragua.

An ex-CIA director himself, Bush also had been caught lying in the Iran-Contra scandal when he insisted that a plane shot down over Nicaragua in 1986 while

dropping weapons to the Contras had no connection to the U.S. government (when the weapons delivery had been organized by operatives close to Bush's vice presidential office where Gregg served as national security adviser).

And, Bush falsely claimed that he was out of the "loop" on Iran-Contra decisions when later evidence showed that he was a major participant in the discussions. From the Bush library documents, it was apparent that the October Surprise cover-up was essentially an extension of the broader Republican effort to contain the Iran-Contra scandal, with Bush personally involved in orchestrating both efforts.

For instance, Iran-Contra special prosecutor Walsh discovered in December 1992 that Bush's White House counsel's office, under Boyden Gray, had delayed production of Bush's personal notes about the arms shipments to Iran in the 1985-86 time frame. Though Gray's office insisted that the delay was unintentional, Walsh didn't buy it.

Beyond dragging its heels on producing documents, the Bush administration maneuvered to keep key witnesses out of timely reach of the investigators. For instance, Gregg used his stationing as U.S. Ambassador to South Korea in 1992 to evade a congressional subpoena.

Like Gates and Bush, Gregg had been linked to secret meetings with Iranians during the 1980 campaign. When asked about those allegations by FBI polygraph operators working for Iran-Contra prosecutor Walsh, Gregg was judged to be deceptive in his denials. [See Final Report of the Independent Counsel for Iran/Contra Matters, Vol. I, p. 501]

Dodging a Subpoena

And, when it came to answering questions from Congress about the October Surprise matter, Gregg found excuses not to accept service of a subpoena.

In a June 18, 1992, cable from the U.S. Embassy in Seoul to the State Department in Washington, Gregg wrote that he had learned that Senate investigators had "attempted to subpoena me to appear on 24 June in connection with their so-called 'October Surprise' investigation. The subpoena was sent to my lawyer, Judah Best, who returned it to the committee since he had no authority to accept service of a subpoena.

"If the October Surprise investigation contacts the [State] Department, I request that you tell them of my intention to cooperate fully when I return to the States, probably in September. Any other inquiries should be referred to my lawyer, Judah Best. Mr. Best asks that I specifically request you not to accept service of a subpoena if the committee attempts to deliver one to you."

That way Gregg ensured that he was not legally compelled to testify while running out the clock on the Senate inquiry and leaving little time for the House task force. His strategy of delay was endorsed by Janet Rehnquist after a meeting with Best and a State Department lawyer. In a June 24, 1992, letter to Gray, Rehnquist wrote that “at your direction, I have looked into whether Don Gregg should return to Washington to testify before the Senate Subcommittee hearings next week. I believe we should NOT request that Gregg testify next week.”

The failure to effect service of the subpoena gave the Bush team an advantage, Rehnquist noted, because the Senate investigators then relented and merely “submitted written questions to Gregg, through counsel, in lieu of an appearance. . . This development provides us an opportunity to manage Gregg’s participation in October Surprise long distance.” Rehnquist added hopefully that by the end of September 1992 “the issue may, by that time, even be dead for all practical purposes.”

Asked about this strategy of delay, Hamilton told me that “running out the clock is a very familiar tactic in any congressional investigation” since the Bush-41 administration would have known that the task force’s authorization expired at the end of the session. That deadline came into play when the floodgates on evidence of Republican guilt opened in December 1992.

In 2010, shortly before his death to cancer, the task force’s former chief counsel Barcella told me that so much incriminating evidence against the Reagan campaign poured in during December 1992 that he asked Hamilton for a three-month extension, but was rebuffed. Hamilton said he had no recollection of such a specific request from Barcella, but added that he might have explained the problem of the task force’s authorization running out at end of the session.

“All I could have done is go before the next Congress and request reauthorization,” Hamilton told me. However, with key evidence withheld and facing fierce Republican resistance to extending the inquiry Hamilton chose to simply wrap up the task force’s report with a judgment clearing Reagan, Bush, Casey and other alleged participants.

Now, realizing that the White House was sitting on knowledge about a mysterious Casey trip to Madrid, Lee Hamilton is no longer so sure. [For a fuller account of the October Surprise evidence implicating Reagan’s 1980 campaign, see Robert Parry’s Secrecy & Privilege and America’s Stolen Narrative, which also contains evidence of a precursor “October Surprise” case, Richard Nixon’s sabotage of President Lyndon Johnson’s Vietnam peace talks in 1968.]

Yet, in April 2014, even as the U.S. government endlessly honors Ronald Reagan

with his name attached to Washington's National Airport and dozens of other government facilities and as warm nostalgia envelopes the aging George H.W. Bush there is outrage across Official Washington that Hamid Aboutalebi, who was 22 when the U.S. hostages were taken, has been named Iran's ambassador to the UN.

Investigative reporter Robert Parry broke many of the Iran-Contra stories for The Associated Press and Newsweek in the 1980s. You can buy his new book, *America's Stolen Narrative*, either in [print here](#) or as an e-book (from [Amazon](#) and [barnesandnoble.com](#)). For a limited time, you also can order Robert Parry's trilogy on the Bush Family and its connections to various right-wing operatives for only \$34. The trilogy includes *America's Stolen Narrative*. For details on this offer, [click here](#).

'We're All Cheneyites Now'

In late 2008, when President Obama opted more for "continuity" than "change" – and ceded control over much of his foreign policy to hawkish "rivals" – he locked in many of Dick Cheney's neocon theories that trampled constitutional principles, as retired JAG Major Todd E. Pierce explains.

By Todd E. Pierce

Dick Cheney's ideology of U.S. global domination has become an enduring American governing principle regardless of who is sitting in the Oval Office, a reality reflected in the recent Ukrainian coup, the 2011 "regime change" in Libya and drone wars waged in several countries by President Barack Obama.

The final form of this ideology took shape in 1991 with the collapse of the Soviet Union when the world was then to be subjected to eternal U.S. military dominance, as revealed in the leaked "[Draft Defense Planning Guidance](#)" (DPG) devised by Cheney's subordinates when he was Defense Secretary under President George H.W. Bush.

Since then, Cheney has been so successful in propagating this ideology of permanent U.S. domination abroad and rule by a "unitary executive" at home that it has now survived multiple changes of U.S. presidents largely intact. It is so much attributable to Dick Cheney that it merits his name: Cheneyism.

As unprecedented as Cheneyism may be not even history's most power-mad conquerors ever envisioned anything like "full-spectrum dominance" President Obama has cemented Cheney's ideological legacy by continuing his unilateralism and even expanding it into such executive powers as targeted killings of

American citizens accused of terrorism.

Cheney's ideology combines militarism under a state of permanent war with an un-American, anti-constitutional authoritarianism. It also embraces an aggressiveness toward past, present and possibly future adversaries, especially Russia.

Robert Gates, who was CIA director in 1991, has written in his memoir *Duty* that with the collapse of the U.S.S.R., Cheney "wanted to see the dismantlement not only of the Soviet Union and the Russian Empire but of Russia itself," so "it could never again be a threat to the rest of the world."

Little wonder that Russian President Vladimir Putin concluded that denying Russian access to Crimean ports via the coup in Ukraine was just one step in a larger U.S. plan to deny Russia a means of naval defense, just as he might have seen the Kosovo War in the late 1990s as a move against a Russian ally.

While there remains some slight domestic opposition to Cheney's most visible legacy, the U.S. global military prison at Guantanamo, there is virtually no deviation in the United States from the core of Cheney's ideology. That is, the unrelenting pursuit of total U.S. global military domination as outlined in the Defense Planning Guidance.

This February's successful subversion of Ukraine's democratically elected government by Assistant Secretary of State for European Affairs Victoria Nuland is merely the latest example of U.S. policies first conceived and promoted by Cheney and like-minded ideologists, including Nuland's husband, renowned neocon Robert Kagan, a co-founder of the Project for the New American Century.

If there was any doubt about the continuation of Cheneyism under Obama, the activities of Nuland a Bush-43 holdover who was promoted by Secretary of State Hillary Clinton and then Secretary of State John Kerry shows there was no real break in foreign policy with the change of administrations in 2009.

As revealed by Nuland, there has not been a Russian policy "reset" by the U.S.; it was a mere subterfuge. And as Putin is learning, any objection to U.S. strategic expansionism is treated as "terrorism" or "aggression" and becomes a pretext for U.S. diplomatic, economic and military suppression of the "threat."

In 1991, as conceived by Cheney and other Pentagon ideologues, such as Paul Wolfowitz and David Addington, this strategy of constantly violating other nations' sovereignty has been waged both by military and political means, as in the old adage that war is an extension of politics by other means (and vice versa).

Yet, the scale of this persistent U.S. subversion of other nations' sovereignty has never been seen before, not even in pre-World War II days by German and Japanese agents or by the Soviet Comintern, none of whom had military commands covering the entire globe.

Cheney may never have served in uniform but he thoroughly internalized the precepts and practices of authoritarian militaristic regimes as an ideologue and infected U.S. political culture with this contagion.

Roots of Cheneyism

Like many other extremist ideologies, Cheneyism grew out of defeat. In this case, the U.S. military defeat in Vietnam and the political defeat of Richard Nixon's administration where Cheney began his career in national politics.

As occurred with Field Marshall Erich Ludendorff and a then obscure corporal named Adolf Hitler following Germany's defeat in World War I, a similar "stab in the back" legend was created by the U.S. military and political leaders after the Vietnam War. They never understood, as General Frederick Weyand did from the beginning, that the Vietnam War was unwinnable by the U.S. military.

Instead, political leaders such as Presidents Lyndon Johnson and Richard Nixon along with strategically challenged Flag Officers, the likes of General William Westmoreland and Admiral U. S. Grant Sharp Jr., held that the U.S. would have won if the "will" to fight hadn't been lost by the American people.

They blamed this on the media and the resultant dissent to the war. Consequently, it became a priority of the U.S. government to control access to information in future wars through censorship and secrecy, to ensure public support through carefully crafted propaganda, and to keep a close eye on any potential dissenters, with various forms of detention available to suppress a disruptive opposition or to stop the dissemination of embarrassing state secrets.

However, even these benighted officials recognized that the U.S. Constitution was an obstacle to the wartime authoritarianism that they aspired to entrench in the U.S. political system. They saw the "exigencies" of war even the undeclared kind as shoving the Constitution aside.

The "fountainhead" for this ideology was the Office of Legal Counsel's opinion written by William Rehnquist in 1970, "Re: The President and the War Power: South Vietnam and the Cambodian Sanctuaries" (the so-called "Rehnquist Memo"). This memo asserted the right of the U.S. to wage preemptive war on the thinnest of grounds.

This political viewpoint was internalized by many military officers and some political officials, including Cheney, notwithstanding their oath to defend the Constitution. The consequences are evident today in the hyper-secrecy and information control policies adopted since 2001 and the arguments by the likes of Cheney for even harsher authoritarian policies.

On Sept. 25, 2001, just two weeks after the 9/11 terrorist attacks, John Yoo, a lawyer who worked for President George W. Bush's Office of Legal Counsel, summarized the concept of unconstrained presidential power.

"It has long been the view of this Office that the Commander-in-Chief Clause is a substantive grant of authority to the President," Yoo wrote. "The power of the President is at its zenith under the Constitution when the President is directing military operations of the armed forces, because the power of Commander in Chief is assigned solely to the President." As support, Yoo cited the Rehnquist Memo.

Though terrorism was always seen by the U.S. Army as mere "sporadic attacks," not rising to the level of war, the U.S. media's immediate conflation of the 9/11 attacks as an "act of war" was the final piece necessary to fully implement Cheney's ideology of permanent warfare by citing the vague threat of terrorism and thus justifying unlimited presidential powers.

As a further rationalization for his "unitary executive theory," Cheney cited the 1987 congressional Iran-Contra committee's "minority report" that he and other Republican members drafted in defense of President Ronald Reagan's defiance of legal constraints on his execution of foreign policy.

In the report, Cheney details Reagan's "struggle" against those legal obstacles as justified by the Constitution's separation of powers that Cheney argued empowered the President to cast off the shackles of both U.S. and international law in the name of "national security."

Then came the other foundational document of Cheney's ideology: the 1991-92 draft Defense Planning Guidance, wherein the Defense Department under Cheney declared *de facto* global military domination by the United States (as described in Harper's Magazine). While the DPG had multiple authors and it became known as the Wolfowitz Doctrine the draft report was prepared under Cheney's sponsorship as Secretary of Defense.

For Cheney, it was as if he saw the Cold War as having been a winner-take-all contest for global domination. When the U.S. "won," the countries of the world were to submit to global U.S. domination. As stated in Harper's Magazine, the United States would move from "countering Soviet attempts at dominance to en-

uring its own dominance.”

More specifically, in addition to the first objective of the U.S. being “to prevent the re-emergence of a new rival,” primary objectives were also “to establish and protect a new order that holds the promise of convincing potential competitors that they need not aspire to a greater role or pursue a more aggressive posture to protect their legitimate interests” and to “maintain the mechanisms for deterring potential competitors from even aspiring to a larger regional or global role.”

After the draft DPG was leaked, causing controversy with U.S. allies, it was withdrawn and revised but with no substantive changes. It was released in January 1993 as the Defense Strategy for the 1990s, just as the Bush-41 administration was giving way to Bill Clinton’s administration.

If this grandiose document merely represented the excesses of one administration, there would be no need to write about it as a new American ideology. But as Wolfowitz wrote in 2000, and quoted by author James Mann in *Rise of the Vulcans*, these ideas “turned into the consensus, mainstream view of America’s post-cold war defense strategy.”

Mann pointed out that Wolfowitz’s assessment may have been a slight exaggeration but after a review of defense issues Clinton preserved the general outlines of the force structure and strategy that had been worked out under Cheney and Wolfowitz.

Cheney’s ideology of permanent U.S. dominance achieved its purest form under President George W. Bush, with Cheney as his influential Vice President. But Cheneyism also has maintained a strong foothold in the five years of the Obama administration. Though President Obama may have learned that there are limits to U.S. military power, that message apparently never got through to the likes of Senators John McCain and Lindsey Graham or to many prominent opinion leaders at major news organizations and think tanks.

Indeed, broadly understood, Cheney’s geopolitical ideas have become the consensus of both Republicans and Democrats and have assumed a permanent place in “mainstream” American political thought and governance under Obama.

Cheney’s ideology, which was put into legal terms by John Yoo and other authoritarian-minded attorneys, has been adopted in large part by Obama administration attorneys such as Harold Koh on issues of presidential powers and has become embedded in American jurisprudence.

This reality is displayed in Justice Department arguments and court decisions in “national security” cases, such as unconstrained surveillance of U.S. citizens,

sweeping invocation of state secrets, and defense of military commissions (where the government now invokes the martial law jurisprudence of the Civil War, describing it as U.S. domestic common law of war).

David Armstrong, author of the Harper's Magazine article on the DPG, wrote that "Cheney's unwavering adherence to the Plan would be amusing, and maybe a little sad, except that it is now our plan. In its pages are the ideas that we now act upon every day with the full might of the United States military." This remains true under Obama.

So, for a foreign government to anticipate how the U.S. will act, their analysts need to understand Cheneyism as a controlling ideology in U.S. policy, just as American intelligence analysts were steeped in theories of Marxism and Stalinism during the Cold War. U.S. citizens should understand the tenets of Cheneyism, too, since this arrogant ideology has the potential for disastrous consequences.

These consequences will be economic at minimum, as we have seen from the financial fallout of the Iraq War. But the consequences could eventually be strategic as well, leading to a military catastrophe as has happened to many world powers in the past.

Indeed, there is a German precedent for Cheney's ideology that is not Nazism. Following the failure of the Imperial German Army in World War I, philosophical militarists such as Ernst Junger and authoritarian legal philosophers like Carl Schmitt came together in the "Conservative Revolutionary Movement."

Celebrating war and authoritarianism, they believed that Germany was the "exceptional" nation of Europe, deserving of military expansion in both eastern and western Europe. The German Conservative Revolutionaries didn't all become Nazis, but they created a hospitable culture for them. With hindsight, they could have been called proto-Cheneyites.

Todd E. Pierce retired as a Major in the U.S. Army Judge Advocate General (JAG) Corps in November 2012. His most recent assignment was defense counsel in the Office of Chief Defense Counsel, Office of Military Commissions. In the course of that assignment, he researched and reviewed the complete records of military commissions held during the Civil War and stored at the National Archives in Washington, D.C.

Firewall: Inside the Iran-Contra Cover-

up

From the Archive: The death of Iran-Contra special prosecutor Lawrence Walsh on Wednesday at the age of 102 marked the passing of what is now rare in the American Establishment, a person who courageously fought for a truthful historical record, as Robert Parry explained in this 1997 review of Walsh's memoir, *Firewall*.

By Robert Parry (First published in 1997)

In crucial ways, Watergate, the signature scandal of the 1970s, and Iran-Contra, the signature scandal of the 1980s, were opposites. Watergate showed how the constitutional institutions of American democracy – the Congress, the courts and the press – could check a gross abuse of power by the Executive, albeit imperfectly. A short dozen years later, the Iran-Contra scandal demonstrated how those same institutions had ceased to protect the nation from serious White House wrongdoing.

Watergate had been part of a brief national awakening which exposed Cold War abuses – presidential crimes, lies about the Vietnam War and assassination plots hatched at the CIA. The Iran-Contra cover-up marked the restoration of a Cold War status quo in which crimes, both domestic and international, could be committed by the Executive while the Congress and the press looked the other way.

That Iran-Contra reality, however, is still little understood for what it actually was: a victory of weakness and deceit over integrity and courage. On one front, the Washington media wants to perpetuate the myth that it remains the heroic Watergate press corps of *All the President's Men*. On another, the national Democratic establishment wants to forget how it crumbled in the face of pressures from the Reagan-Bush administrations. And, of course, the Republicans want to protect the legacy of their last two presidents.

Those combined interests led to very few favorable reviews of a memoir by a man who put himself in the way of that cover-up – Iran-Contra independent counsel Lawrence Walsh. In *Firewall: The Iran-Contra Conspiracy and Cover-up*, Walsh details his six-year battle to break through the “firewall” that White House officials built around President Ronald Reagan and Vice President George H.W. Bush after the Iran-Contra scandal exploded in November 1986.

For Walsh, a lifelong Republican who shared the foreign policy views of the Reagan administration, the Iran-Contra experience was a life-changing one, as his investigation penetrated one wall of lies only to be confronted with another

and another – and not just lies from White House aide Oliver North and his lower-level cohorts but lies from nearly every senior administration official who spoke with investigators.

According to *Firewall*, the cover-up conspiracy took formal shape at a meeting of Reagan and his top advisers in the Situation Room at the White House on Nov. 24, 1986. The meeting's principal point of concern was how to handle the troublesome fact that Reagan had approved illegal arms sales to Iran in fall 1985, before any covert-action finding had been signed. The act was a clear felony – a violation of the Arms Export Control Act – and possibly an impeachable offense.

Though virtually everyone at the meeting knew that Reagan had approved those shipments through Israel, Attorney General Edwin Meese announced what would become the cover story. According to Walsh's narrative, Meese "told the group that although [NSC adviser Robert] McFarlane had informed [Secretary of State George] Shultz of the planned shipment, McFarlane had not informed the president. ...

"[White House chief of staff Don] Regan, who had heard McFarlane inform the president and who had heard the president admit to Shultz that he knew of the shipment of Hawk [anti-aircraft] missiles, said nothing. Shultz and [Defense Secretary Caspar] Weinberger, who had protested the shipment before it took place, said nothing. [Vice President George] Bush, who had been told of the shipment in advance by McFarlane, said nothing. Casey, who [had] requested that the president sign the retroactive finding to authorize the CIA-facilitated delivery, said nothing. [NSC adviser John] Poindexter, who had torn up the finding, said nothing. Meese asked whether anyone knew anything else that hadn't been revealed. No one spoke."

When Shultz returned to the State Department, he dictated a note to his aide, Charles Hill, who wrote down that Reagan's men were "rearranging the record." They were trying to protect the president through a "carefully thought out strategy" that would "blame it on Bud" McFarlane.

'Fall Guy'

As part of that strategy, virtually all of Reagan's top advisers, including Shultz, gave false and misleading testimony to Congress and prosecutors. Their accounts essentially blamed the illegalities on Marine Lt. Col. Oliver North and his bosses at the National Security Council, McFarlane and Poindexter. Pretty much everyone else – at the CIA, Defense Department, the Vice President's Office and the White House – claimed ignorance.

Even though Oliver North correctly testified in 1987 that he was the "fall guy"

in this implausible scenario, the Democrats and much of the press corps still fell for it. There was a clicking of wine glasses around Official Washington as the “men of zeal” cover story was enshrined as the official history of the Iran-Contra affair. A painful Watergate-style impeachment battle had been averted.

The story might have stopped there but for the work of Walsh and his small team of lawyers. Yet Walsh’s investigation was hampered from the start by congressional haste and from hostility among key elements of the media. Congress was so ready to accept the theory of a rogue operation that it rushed ahead with televised hearings designed to make North and his NSC superiors, McFarlane and Poindexter, the primary culprits. Without even questioning North ahead of time, the Iran-Contra committee granted the charismatic Marine officer and his pipe-smoking boss, Poindexter, limited immunity.

Three years later, that immunity came back to haunt Walsh’s hard-won convictions of North and Poindexter. Conservative judges on the federal appeals court, particularly Reagan loyalists Laurence Silberman and David Sentelle, exploited the immunity opening to reverse North’s conviction. Sentelle, a protege of Sen. Jesse Helms, R-N.C., also joined in the decision to wipe out Poindexter’s conviction. [After that, Sentelle took over the three-judge panel, which oversaw independent counsels, including Walsh.]

In *Firewall*, Walsh described the GOP majority on the U.S. Appeals Court for the District of Columbia as “a powerful band of Republican appointees [who] waited like the strategic reserves of an embattled army, ... a force cloaked in the black robes of those dedicated to defining and preserving the rule of law.”

Still, despite the legal and political obstacles, Walsh’s investigation broke through the White House cover-up in 1991-92. Almost by accident, as Walsh’s staff was double-checking some long-standing document requests, the lawyers discovered hidden notes belonging to Weinberger and other senior officials. The notes made clear that there was widespread knowledge of the 1985 illegal shipments to Iran and that a major cover-up had been orchestrated by the Reagan and Bush administrations.

The Pounding Begins

The belated discovery led to indictments against senior CIA officials and Weinberger. Congressional Republicans, led by Sen. Bob Dole, R-Kansas, reacted by angrily denouncing Walsh and calling for an end to his investigation. The Washington press corps also had grown hostile, complaining that Walsh’s probe had taken too long and had cost too much.

The conservative *Washington Times* and the *Wall Street Journal*’s editorial page

fired near-daily barrages at Walsh often over trivial matters, such as first-class air fare and room-service meals. Key columnists and editorial writers for *The Washington Post* and *The New York Times* – along with television pundits David Brinkley and Christopher Matthews – joined in the Walsh bashings. Walsh was mocked as a modern-day Captain Ahab.

In his book, however, Walsh compared his trying experience to another maritime classic, Ernest Hemingway's *Old Man and the Sea*. In that story, an aging fisherman hooks a giant marlin and, after a long battle, secures the fish to the side of his boat. On the way back to port, the marlin is attacked by sharks that devour its flesh and deny the fisherman his prize. "As the independent counsel, I sometimes felt like the old man," Walsh wrote, "more often, I felt like the marlin."

More seriously, the congressional and media attacks effectively limited Walsh's ability to pursue what appeared to be other false statements by senior administration officials. Those perjury inquiries could have unraveled other major national-security mysteries of the 1980s and helped correct the history of the era. But Walsh could not overcome the pack-like hostility of Official Washington.

For instance, the Walsh team had strong suspicions that Bush's national security adviser, ex-CIA officer Donald Gregg, had lied when he testified that he was unaware of North's Contra resupply operation, although Gregg's close friend, Felix Rodriguez, was working with North in Central America and called Gregg after each Contra delivery.

There already had been problems with Gregg's story, including the discovery of a vice presidential office memo describing a planned meeting with Rodriguez about "resupply of the contras." Gregg bizarrely explained the memo away as a typo that should have read, "resupply of the copters."

More Cracks

In *Firewall*, Walsh disclosed that Gregg's stonewall experienced another crack when Col. James Steele, U.S. military adviser to El Salvador, flunked a polygraph test when he denied his own role in shipping weapons to the Contras. Confronted with those results and incriminating notes from North's diaries, "Steele admitted not only his participation in the arms deliveries but also his early discussion of these activities with Donald Gregg," Walsh wrote.

Gregg failed his own polygraph when he denied knowledge of the Contra supply operation. Gregg also flunked when he denied participating in the so-called October Surprise operation in 1980, an alleged secret CIA-GOP operation to

undermine President Jimmy Carter's Iran hostage negotiations and secure Reagan's election. [See Robert Parry's *Secrecy & Privilege* and *America's Stolen Narrative* for more details on Gregg's alleged October Surprise role.]

Despite the doubts about Gregg's veracity, Walsh felt compelled to set aside those allegations as he struggled to finish several pending perjury cases against Weinberger and CIA officials, Clair George and Duane Clarridge. As those cases moved haltingly forward, anti-Walsh attacks multiplied in Congress and in the Washington media.

The Republican independent counsel also infuriated the GOP when he submitted a second indictment of Weinberger on the Friday before the 1992 elections. The indictment contained documents revealing that President Bush had been lying for years with his claim that he was "out of the loop" on the Iran-Contra decisions. The ensuing furor dominated the last several days of the campaign and sealed Bush's defeat at the hands of Bill Clinton.

Walsh had discovered, too, that Bush had withheld his own notes about the Iran-Contra Affair, a discovery that elevated the President to a possible criminal subject of the investigation. But Bush had one more weapon in his arsenal. On Christmas Eve 1992, Bush destroyed the Iran-Contra probe once and for all by pardoning Weinberger and five other convicted or indicted defendants.

"George Bush's misuse of the pardon power made the cover-up complete," Walsh wrote. "What set Iran-contra apart from previous political scandals was the fact that a cover-up engineered in the White House of one president and completed by his successor prevented the rule of law from being applied to the perpetrators of criminal activity of constitutional dimension."

But the cover-up likely could not have worked if the other institutions of Washington – Congress, the courts and the press – had not helped. Those institutions aided and abetted the White House both directly, through decisions that undermined the cases or reversed convictions, or indirectly, through incessant heckling of Walsh's investigators over trivial complaints.

Like the cover-up that bedeviled Lawrence Walsh, the historic reversal for America – from the constitutional protections of Watergate to the flouting of law in Iran-Contra – was complete.

Investigative reporter Robert Parry broke many of the Iran-Contra stories for The Associated Press and Newsweek in the 1980s. You can buy his new book, *America's Stolen Narrative*, either in [print here](#) or as an e-book (from [Amazon](#) and [barnesandnoble.com](#)). For a limited time, you also can order Robert Parry's trilogy on the Bush Family and its connections to various right-wing operatives

for only \$34. The trilogy includes *America's Stolen Narrative*. For details on this offer, [click here](#).

How Reagan Enforced US Hypocrisy

Exclusive: The mainstream U.S. news media has so fully bought into the U.S. government's narrative on Ukraine that almost no one sees the layers of hypocrisy, an achievement in "group think" that dates back to Ronald Reagan's war against "moral equivalence," writes Robert Parry.

By Robert Parry

Official Washington's hearty disdain for anyone who cites U.S. hypocrisy toward the Ukraine crisis can be traced back to a propaganda strategy hatched by the Reagan administration in 1984, dismissing any comparisons between U.S. and Soviet behavior as unacceptable expressions of "moral equivalence."

This "moral equivalence" concern stemmed, in part, from the prior decade's disclosures of U.S. government misconduct – the Vietnam War, CIA-sponsored coups and other intelligence abuses at home and abroad. In that climate of heightened skepticism, U.S. journalists felt it was their job to show some skepticism and hold U.S. officials accountable for their behavior.

For President Ronald Reagan, that meant journalists taking note of his administration's support for terrorism by the Contra rebels in Nicaragua and for death-squad-tainted governments slaughtering civilians in countries such as Guatemala and El Salvador.

So, to counter this P.R. problem, Reagan administration officials developed a propaganda "theme" that, in effect, asserted that the U.S. government should not be held to the same human rights standards as the Soviet government because the United States was morally superior to the Soviet Union.

According to documents recently released by the Reagan Presidential Library in Simi Valley, California, the Reagan administration established a "Moral Equivalence Working Group" in 1984 reporting to Walter Raymond Jr., who had been a top psychological warfare specialist at the CIA before being moved to Reagan's National Security Council where he oversaw a wide-ranging program of domestic and foreign propaganda.

Though the working group's core complaint was something of a straw man, since it would be hard to find anyone who equated the U.S. and USSR, the Reagan

administration made clear that anyone who continued to apply common moral standards to the two governments would be accused of “moral equivalence.”

This framing proved effective in tarring U.S. journalists and human rights activists as, in essence, Soviet apologists. The “theme” was most famously expressed by U.S. Ambassador to the United Nations Jeane Kirkpatrick at the Republican National Convention in 1984 when she decried anyone who would “blame America first.”

Link to the Present

As an Associated Press reporter, I encountered this “moral equivalence” attack line when I questioned State Department officials about their hypocrisy in applying strict human rights standards to Nicaragua’s Sandinista government while excusing far more serious abuses by the Contras and other U.S. allies in Central America.

Neocon intellectual Robert Kagan, who then was a senior official in the State Department’s Office of Public Diplomacy for Latin America, warned me that I was edging dangerously close to the line on “moral equivalence.”

Ironically, Kagan’s wife, Assistant Secretary of State for European Affairs Victoria Nuland, is now at the forefront of U.S. support for the Ukrainian coup, which relied on neo-Nazi militias to overthrow a democratically elected president, though the official U.S. narrative is that this was a “democratic” uprising. [See Consortiumnews.com’s [“Neocons and the Ukraine Coup.”](#)]

Over the past three decades, the argument against “moral equivalence” has changed little, though it has morphed into what is now more commonly described as American “exceptionalism,” the new trump card against anyone who suggests that the U.S. government should abide by international law and be held to common human rights standards.

Today, if you make the case that universal rules should apply to the United States, you are accused of not embracing America as an “exceptional” country. As a result, very few mainstream observers in Official Washington even blink now at the U.S. government taking contradictory positions on issues such as intervening in other countries.

Invasions of Iraq and Afghanistan are “justified” as are drone strikes and aerial bombardments of countries from Pakistan to Yemen to Somalia to Libya. It’s also okay to threaten to bomb Syria and Iran.

Supporting the overthrow of sovereign governments is also fine for the United States but not for anyone else. Just during the Obama administration, the U.S.

government has backed coups in Honduras, Libya and now Ukraine. U.S.-endorsed secessions are okay, too, as with oil-rich South Sudan from Sudan.

Yet, when the geopolitical shoe is on the other foot when Russia objects to the violent overthrow of Ukraine's duly-elected President Viktor Yanukovich and, as a result, supports a secession referendum by Crimea on whether its citizens want to join the Russian Federation Official Washington cries out in moral outrage.

Suddenly, we see mainstream American journalists searching for some clause in Ukraine's constitution that prohibits secession, though these journalists had no problem with the violation of the same constitution's procedures for impeaching a president, rules ignored by the coup regime with barely a peep from U.S. news outlets.

Framing the Debate

This ever-shifting moral playing field was defined by the Reagan administration's propagandists in the mid-1980s, coincidentally in the iconic year 1984, according to documents at the Reagan Library. I found in Raymond's files a "concept paper" for a conference to address "moral equivalence," attached to a memo dated Sept. 4, 1984. The paper read:

"The Moral Equivalence Working Group has for some time been examining ways to counter the common (and for US, very damaging) concept of the 'moral equivalence of the superpowers,' i.e., the notion that there is no moral distinction to be made between the US and the USSR, particularly in the areas of foreign and military policy. Moral equivalence is a particularly insidious problem because it permeates almost every level of public discourse both at home and abroad."

The "concept paper" offers no specific examples of anyone actually engaging in this "moral equivalence," but it insists that the problem is widespread among elites and could be detected when people, for instance, compared the U.S. invasion of Grenada to the Soviet invasion of Afghanistan. The paper reads:

"This is not to suggest that moral equivalence is in fact a majority perception. There is reason to believe that it is primarily an elite problem and that the broad mass of people has a sounder instinct on the inherent moral differences between the US and Soviet systems. However, given the dominance of morally equivalent thinking among elites, particularly in the media and in academia, public resistance to moral equivalence is provided with little informational or intellectual support."

The paper then proposes a high-level conference sponsored by the neoconservative Center for Strategic and International Studies with the goal of analyzing "the Moral Equivalence misconception" and devising ways "to combat the problem"

including addressing “intellectual fashion and ways to have an impact on it.”

Over the intervening three decades, these U.S. government’s propaganda efforts against holding the United States to the same moral standards as other countries have proved remarkably successful, at least within U.S. opinion circles.

It is now common for mainstream journalists to accept the principle of “American exceptionalism” in both implications of the word: that the United States is a wonderfully exceptional nation and that it is exempted from international law.

Indeed, it is rare for anyone in mainstream journalism to assert that the United States should conform to international law, i.e. respecting the sovereign borders of other countries. Yet, the same opinion leaders express outrage when Russia intervenes in Ukraine in the wake of a neo-Nazi-spearheaded coup on Russia’s border.

No longer do mainstream U.S. journalists and academics try to apply the same rules to Washington and Moscow. The “problem” that Reagan’s team detected in the 1980s has been solved. Today, American hypocrisy is the accepted “group think.”

[For more of Consortiumnews.com’s exclusive coverage of the Ukraine crisis, see [“Crimea’s Case for Leaving Ukraine,”](#) [“The ‘We-Hate-Putin’ Group Think”](#); [“Putin or Kerry: Who’s Delusional?”](#); [“America’s Staggering Hypocrisy”](#); [“What Neocons Want from Ukraine Crisis”](#); [“Ukraine: One ‘Regime Change’ Too Many?”](#); [“A Shadow US Foreign Policy”](#); [“Cheering a ‘Democratic’ Coup in Ukraine”](#); [“Neocons and the Ukraine Coup.”](#)]

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